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ABSTRACT

This is a report on the progress of the U.S. Department of Education's accounting systems and management controls. Sections include: (1) Management's Discussion and Analysis; (2) Performance Details; (3) Financial Details; and (4) Other Statutorily Required Reports. Five appendixes are included along with a glossary of terms and a list of figures. (AMT)

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No Child Left Behind

FY 2003
Performance and Accountability Report

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U.S. Department of Education

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FY 2003
Performance and Accountability Report

U.S. Department of Education

November 14, 2003

U.S. Department of Education
Rod Paige
Secretary

Office of the Deputy Secretary
Eugene Hickok
Acting Deputy Secretary

Strategic Accountability Service
Hugh Walkup
Director

Office of the Chief Financial Officer
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Chief Financial Officer

November 2003

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Message from the Secretary

Two short years ago the nation joined together in a mission to fundamentally improve all aspects of public education in America. This mission is of vital importance because for our great nation to sustain its prominence, we must do a better job educating our children. More than 35 years after Congress passed the first Elementary and Secondary Education Act, public school spending per pupil has more than doubled, adjusted for inflation. Yet, student achievement remains stagnant. So, on January 8, 2002, President Bush and a bipartisan Congress sent a message to all Americans that success would no longer be measured solely by the dollars spent, but on enhanced educational opportunities for all children.

We are asking a lot of our nation's schools. In return, we at the U.S. Department of Education are asking a lot of ourselves. This Department and our nation's education system have come a long way since the President signed No Child Left Behind into law. Our financial house is in order, and for fiscal year 2003 we received our second consecutive unqualified "clean" audit opinion; every state in the union has an approved accountability plan that accounts for every child; and the national dialogue on education has dramatically matured.

These changes are the results of a disciplined effort on behalf of the Department to lead by example. We instituted a culture of accountability within the Department starting with the five-year Strategic Plan in 2002 and subsequent annual plans. Based on these plans, the Department regularly reviews and reports our performance and financial accountability as required by the Government Performance and Results Act and the Government Management Reform Act. This report represents the Department's FY 2003 accomplishments and efforts to continue progress on meeting stated goals.

For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), the Department accounting systems and management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved.

In promoting a culture of accountability, we have made every effort to clearly, accurately, and completely report on the Department's progress towards fulfilling our responsibilities and organizational goals where information is available. We hope this report will be of use to Congress and the American public.

Quality education is a right that must be protected and fulfilled for every child in our country. Such an education is the foundation upon which we will build the future of this great nation. In the months and years to come, we will travel a long and hard road, but we will not rest until no child is left behind.

Sincerely,

Rod Paige

Rod Paige
November 14, 2003

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Management's Discussion and Analysis

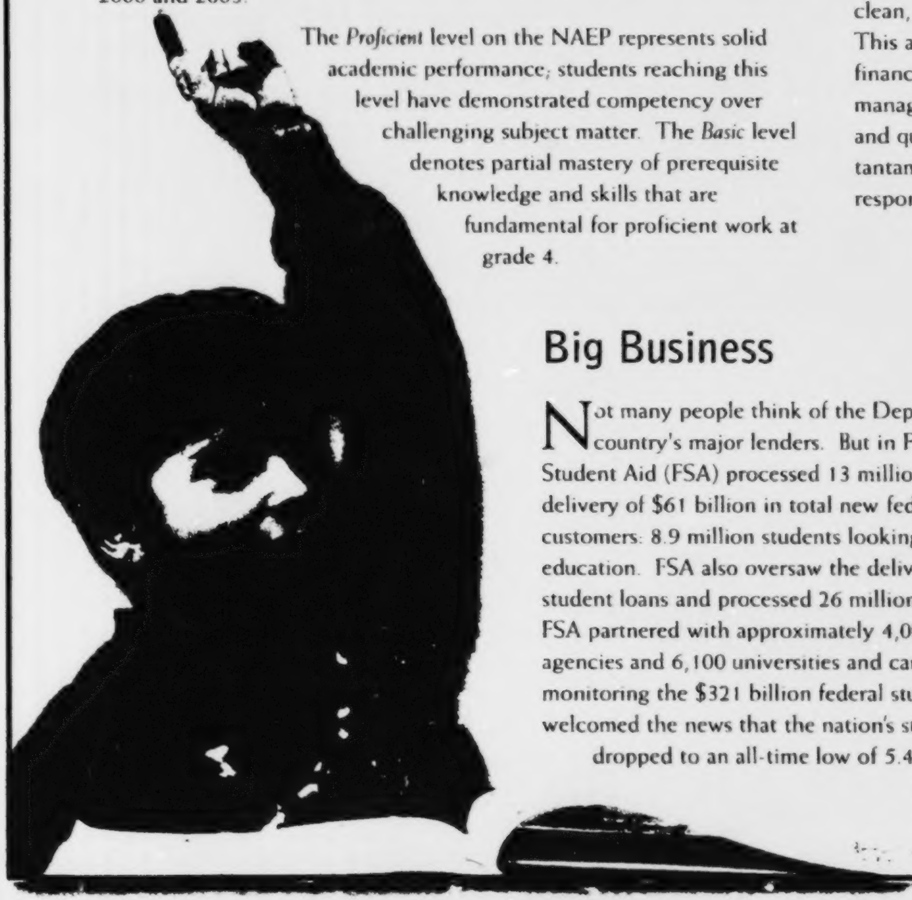
Education Serves the Public Well

Reading Scores on the Rise

Results of recent fourth-grade National Assessment of Educational Progress (NAEP) reading assessments came as good news to the education community and the public. 2003 fourth-grade NAEP reading results showed the following:

- A higher percentage of fourth-grade readers scored at or above *Basic* than in 1994, 1998, and 2000.
- A higher percentage of fourth-grade readers scored at or above *Proficient* than in 1992 and 1998.
- Fourth-grade white students, black students, and Hispanic students had higher average reading scores in 2003 than in 1994, 1998, and 2000.
- The average score gap between white and black fourth graders was smaller in 2003 than in 1994.
- The gap between white and Hispanic fourth graders narrowed between 2000 and 2003.

The *Proficient* level on the NAEP represents solid academic performance; students reaching this level have demonstrated competency over challenging subject matter. The *Basic* level denotes partial mastery of prerequisite knowledge and skills that are fundamental for proficient work at grade 4.



States Complete Accountability Plans

On June 10, 2003, in an historic milestone for education reform, President Bush announced that every state, Puerto Rico, and the District of Columbia have in place new accountability plans outlining how they will achieve the bold goal of making sure no child in America is left behind.

Unqualified Audit Opinion

In FY 2003, the Department of Education earned a second consecutive unqualified, or clean, audit opinion of our financial statements. This achievement validates our commitment to financial integrity and effective program management. Maintaining accounting integrity and quality stewardship of federal funds is tantamount to fulfilling our fiduciary responsibility to the public.

Big Business

Not many people think of the Department of Education as one of the country's major lenders. But in FY 2003 the Office of Federal Student Aid (FSA) processed 13 million aid applications and oversaw the delivery of $61 billion in total new federal aid to a unique set of customers: 8.9 million students looking for a way to finance their college education. FSA also oversaw the delivery of $36 billion of consolidated student loans and processed 26 million Direct Loan borrower payments. FSA partnered with approximately 4,000 lenders, servicers and state agencies and 6,100 universities and career schools. Responsible for monitoring the $321 billion federal student aid loan portfolio, FSA welcomed the news that the nation's student loan cohort default rate has dropped to an all-time low of 5.4 percent.

A New Way of Doing Business

A Departmental management goal is to have the right people in the right place doing the right work in the right way. To effectively synchronize all aspects of governance requires timely, pertinent information for decision makers. Our new FY 2003 executive management reporting tool, *Fast Facts*, is a quarterly compilation of the "vital" facts on financial metrics and program performance. This enables senior Department staff to best improve management efficiency. *Fast Facts* will provide trends of key statistics over time to help the Department reward effective activities and adjust policy to correct less optimal practices.

Beginners Books for Beginning Readers

The gap in reading achievement for Native American early readers is a step nearer to closing because of the access American Indian parents, teachers, and students have to 400 new book titles constructed in native languages or bilingual format. The Department's Office of English Language Acquisition created and made available the first catalogue of beginning reading texts with Native American themes. Native Americans who speak one of the 155 different native languages, and especially Navajos who constitute 45 percent of all speakers of native languages, will benefit from this aid for improving early reading skills.

A Helping Hand

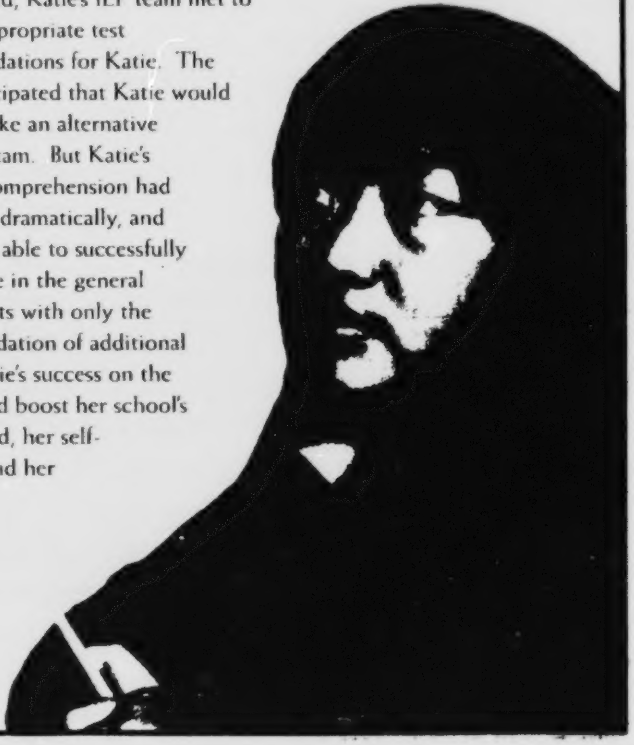
Pound for pound, is there anything more fiendishly frustrating than trying to open the impenetrable pickle jar? This simplest of acts can be ego-crushingly difficult, even for the most able bodied. For the elderly or disabled, it can be close to impossible.

A product co-developed by the Rehabilitation Engineering Research Center on Technology Transfer (T^{2}RERC) at the State University of New York at Buffalo aims to end the problem. The Black & Decker Lids Off jar opener, resembling a coffee maker sans pot, opens jars with the push of a button (In-Sung Yoo, *USA Today*, July 6, 2003).

T^{2}RERC is one of 22 research centers funded by the Department's National Institute on Disability and Rehabilitation Research.

Reading Disability Eased

Katie, Mrs. Blake's fifth-grade student, struggled with word recognition until her reading competence fell below that of her peers, and she was identified as reading disabled in her Individualized Education Plan. Mrs. Blake believed Katie could catch up to her peers with special intervention, so she met weekly with the special education teacher to learn about appropriate instructional practices, practices developed and validated through Individuals with Disabilities Education Act (IDEA), Part D, investments. As Mrs. Blake implemented the IDEA strategies, she was pleased to see that Katie's reading ability improved, and so did that of her classmates. As testing time approached, Katie's IEP team met to discuss appropriate test accommodations for Katie. The team anticipated that Katie would need to take an alternative reading exam. But Katie's reading comprehension had improved dramatically, and Katie was able to successfully participate in the general assessments with only the accommodation of additional time. Katie's success on the test helped boost her school's report card, her self-esteem, and her future.



No Child Left Behind makes history in American education and builds futures for America's students.

—*Secretary Rod Paige*

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Executive Summary

Department at a Glance

Our Mission

The mission of the United States Department of Education is to ensure equal access to education and to promote educational excellence throughout the nation. To achieve this mission, the Department employs the talents of approximately 4,700 dedicated individuals in areas covering the gamut of educational activity in America. Our work addresses improvement across the age continuum of learning—elementary and secondary education, postsecondary education, vocational education, and adult education. Activities support correlated functions that improve learning for people of all ages, including special education; violence and drug prevention; character education; student financial assistance; English language acquisition; research, innovation, and improvement in educational practice; rehabilitation research; and rehabilitation services. To improve quality and access, Department staff coordinate research on best practices in education and monitor the development of state-level academic performance and teacher preparation standards. Others ensure that grants are based on evidence of what works in education, advocate innovative approaches to enhance student learning, or work to expand opportunities for all Americans to achieve their full potential. Through the No Child Left Behind Act (NCLB) and other key initiatives, the Department of Education aims to improve the quality and effectiveness of academic instruction, thus increasing the intellectual, moral, and economic capital of this great nation.

To ensure equal access to education and to promote educational excellence throughout the nation

Our Beneficiaries: Students, Parents, Schools, and Postsecondary Institutions

So whom does the Department of Education serve? Every American, whether native-born or immigrant, has a stake in the nation's educational success. Before the age of 5, a child may be enrolled in a preschool or receive government services to improve basic skills. Between ages 5 and 18, that child becomes 1 of 53 million students[1] attending an elementary or secondary school, gaining fundamental instruction in reading, grammar, mathematics, science, history, and foreign languages. Between the ages of 18 and 30, that young adult may immediately use his or her acquired skills in the workforce, or he or she may become 1 of 15 million scholars[2] receiving a postsecondary education, pursuing anything from a two-year technical degree to a master's degree in business administration to a doctorate in physics. Upon completion of studies, that man or woman will pay taxes based on the income that education made possible, supporting further school improvement at the local, state, and federal level. He or she may start a family with children who begin the same learning process, providing wisdom and advice to help his or her sons and daughters excel. And today, long after age 30, he or she may pursue further education to improve technological skills and expand opportunities in the job market.

The chart on the following page shows the extensive investment that the United States has made in its educational system and the millions of individuals who directly benefit from its operation today. When one considers the millions more that support and depend upon these learners and educators, it is obvious that the work of improving education affects all Americans.

As America has transformed over time into a technologically complex society, Americans have needed to receive more rigorous education to meet the challenge of this complexity. On the whole, progress

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The Scope of Education in America

Public Elementary and Secondary Education

Schools	94,112
Teachers	2,997,741
Students	47,687,871
School membership by race/ethnicity:	
American Indian/Alaskan Native	1.2%
Asian/Pacific Islander	4.2%
Black	17.2%
Hispanic	17.1%
White	60.3%
Revenues	$401 billion
Federal	7.3%
State	49.7%
Local and intermediate	43.1%

Postsecondary Education (Title IV Institutions)

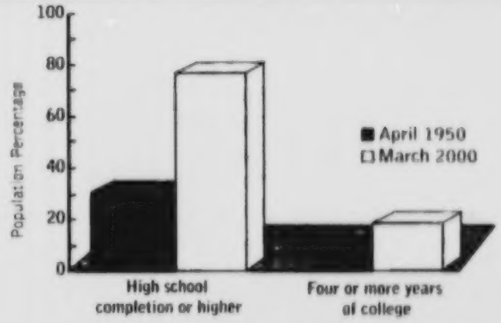
Institutions—Total	**6,614**
Public	2,129
Private—Not for profit	1,990
Private—For profit	2,495
Students—Total	**16,334,134**
Public	12,370,079
Private—Not for profit	3,198,354
Private—For profit	765,701
Full-time and part-time faculty —Total	**1,152,106**
Public	792,477
Private—Not for profit	313,528
Private—For profit	46,101

Notes. All data are for school year (SY) 2001–02, except revenues, which are for SY 2000-01.
Title IV postsecondary institutions are those postsecondary institutions that participate in Title IV federal student financial aid programs and are required to report data.

Sources. Elementary and Secondary: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), NCES Statistical Analysis Reports, 2003. (http://www.nces.ed.gov/ccd/)
Postsecondary: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System, 2001–02 Fall Staff Survey and Enrollment Survey.

is significant. From 1950 to 2000, the percentage of all Americans age 25 and older who completed high school increased from 34 percent to 84 percent, and the percentage completing at least four years of college increased from 6.2 percent to nearly 26 percent.[3] These accomplishments have translated into increased labor productivity and wages; over the same timespan, real per capita personal income has risen by 175 percent.[4]

YEARS OF SCHOOL COMPLETED BY PERSONS AGE 25 AND OVER



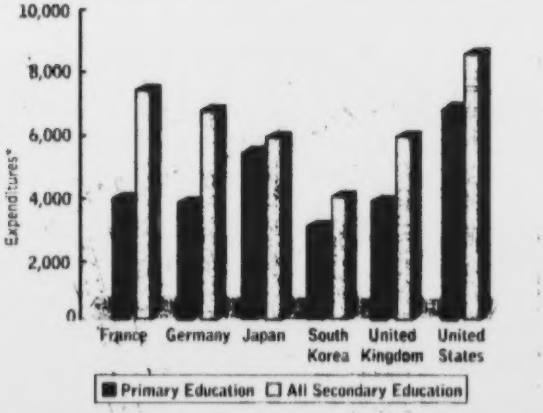
Source. National Center for Education Statistics, *Digest of Education Statistics*, 2002. http://nces.ed.gov/pubs2003/digest02/tables/dt008.asp.

The United States leads in many industries that require higher-order thinking and innovation, and its education system has played a major role in developing the abilities that make such leadership possible.

But the rising tide has not lifted all boats equally. Although gaps have closed somewhat over the last 20 years, blacks and Hispanics continue to lag significantly behind white Americans in reading and mathematics proficiency.[5] Today, blacks and Hispanics enroll in and complete college in significantly lower percentages than whites,[6] and they earn lower personal income.[7] Children from economically disadvantaged backgrounds struggle to achieve the educational success of their more affluent classmates.[8] Although education has helped the United States to amass tremendous wealth and global influence, not every American shares significantly in that bounty. And that is unacceptable.

Resolving these disparities requires resources, but money is not the entire answer. Since 1980, the amount per pupil spent on elementary and secondary education in America has increased in real terms by nearly 50 percent.[9] The Organization for Economic Cooperation and Development recently produced a study of over 20 industrial nations that showed the United States near the top in spending per pupil on elementary and secondary education. That same study, however, placed America only in the middle of the pack in academic performance among 15-year-old students in reading, mathematics, and science.[10]

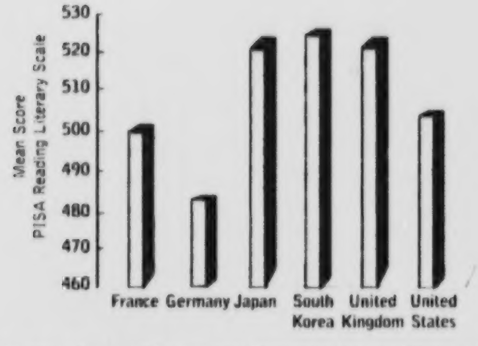
PER STUDENT EXPENDITURE ON EDUCATIONAL INSTITUTIONS (2000)



*Annual expenditure per student in equivalent U.S. dollars converted using Purchasing Power Parities.

Source. Organization for Economic Cooperation and Development, *Education at a Glance 2003*, Table B1.1.

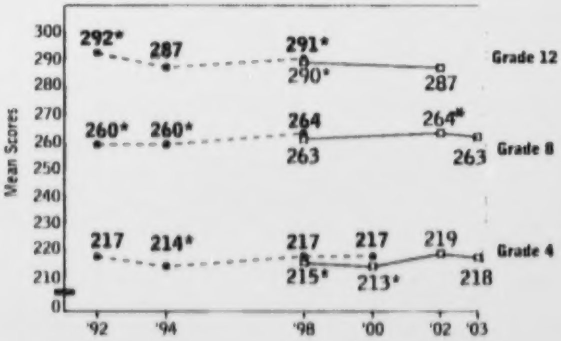
VARIATION IN PERFORMANCE IN READING LITERACY OF 15-YEAR OLDS (2000)



Source. Organization for Economic Cooperation and Development, *Education at a Glance 2003*, Table A5.1.

That's not to say things aren't improving. Data from the 2003 reading assessment of the National Assessment of Educational Progress (NAEP) show significant gains for America's fourth graders in reading since the 2000 assessment, and scores for fourth and eighth graders on the Mathematics Assessment have increased steadily and significantly throughout the 1990s.[11] Yet given America's international position, there's clearly room for further improvement. Money is essential, yes, but without high standards, knowledge of effective practices, and expectations that all children can succeed, such support can be easily wasted.

RESULTS ON NAEP READING ASSESSMENTS



* Significantly different from the most recent year.

Note. Scale score results when testing accommodations were not permitted are shown with dotted lines; when accommodations were permitted, with solid lines. For more detailed information, see appendix A, measures 2.1.7-18 and 2.3.13-22.

Source. Department of Education, Institute of Education Sciences, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), 1992, 1994, 1998, 2000, 2002 and 2003 Reading Assessments.

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When President Bush took office in 2001, he made it clear that the future of American education would involve the academic success of every boy and girl who called America home, regardless of his or her background.

> *We've got one thing in mind: an education system that's responsive to the children, an education system that educates every child, an education system that I'm confident can exist; one that's based upon sound fundamental curriculum, one that starts teaching children to read early in life, one that focuses on systems that do work, one that heralds our teachers and makes sure they've got the necessary tools to teach, but one that says every child can learn. And in this great land called America, no child will be left behind.*
>
> *—President George W. Bush*

Within a year, NCLB was a reality, and new requirements of academic accountability and performance were established throughout America.

And although NCLB focuses on the overall transformation of elementary and secondary education, its effects will spread to all levels of educational activity. Special education and English language acquisition will benefit by holding schools accountable for higher standards of academic proficiency. Postsecondary education will benefit from an increase in both the number and academic potential of students seeking a degree. Research will be central to greater utilization of best practices for use in effective learning.

In all these areas, the Department of Education worked hard during fiscal year (FY) 2003 to build on the foundations of NCLB, creating and implementing a culture of accountability and starting to realize positive, lasting change in the classroom. **Our focus is clear: No child will be left behind.**

History

When President Andrew Johnson signed the legislation creating the first Department of Education in 1867, the agency's primary function was to collect statistics on the nation's schools and teachers to help improve the states' burgeoning school systems. A year later, the Department was reorganized as a non-Cabinet-level Office of Education and for many years carried out activities in this form. The organization has come a long way from its mid-19th-century staff of four employees that handled education fact finding with a budget of only $15,000. By 1965, the Office of Education employed more than 2,000 persons with a budget of $1.5 billion. In 1980, Congress made the Department of Education a Cabinet-level agency. Today, the U.S. Department of Education has about 4,700 employees and a budget of $62.9 billion. Over our 136-year existence, the agency has experienced various changes in name, status, size, and location within the executive branch, but improving education through the dissemination of information to teachers and education policy makers that was stressed at the agency's beginning continues to be a primary role.

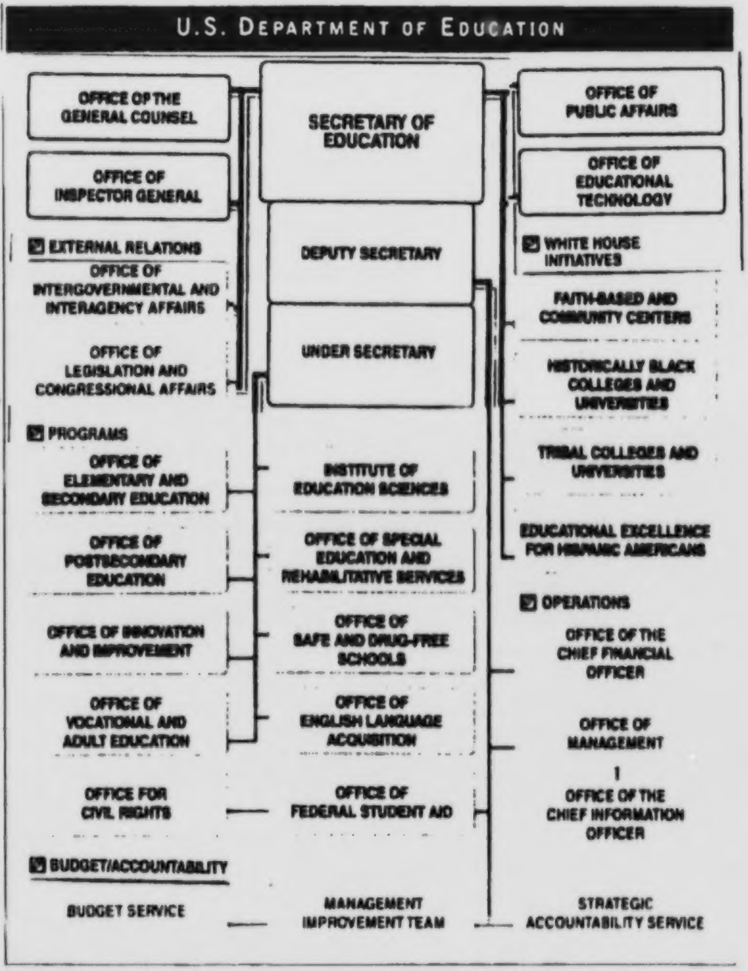
Since the Department's inception, the challenges of an ever-changing world have required legislation to ensure equal access to a quality education. The passage of the Second Morrill Act in 1890 charged the then-named Office of Education with administering support for the original system of land-grant colleges and universities. The next major area of federal aid to schools addressed vocational education, with the 1917 Smith-Hughes Act and the 1946 George-Barden Act focusing on agricultural, industrial, and home economics training for high school students. World War II caused a notable increase of federal support for education. The Lanham Act in 1941 and the Impact Aid laws of 1950 eased the revenue burden on communities affected by the presence of military and other federal installations by making payments to affected school districts. And in 1944, the "GI Bill" authorized postsecondary education assistance that sent nearly 8 million World War II veterans to college.

In the 1950s, even more federal aid became available for education in response to political and social changes. The Soviet Union's successful launch of Sputnik raised American interest in maintaining global competitiveness and resulted in additional resources to improve education in the sciences, mathematics, and foreign languages. In the 1960s, major initiatives such as the Elementary and Secondary Education Act and the Higher Education Act led to improvements in education for the poor at all school levels. The civil rights laws of the 1960s and 1970s brought about a dramatic emergence of the Department's equal access mission, prohibiting discrimination based on race, national origin, sex, disability, and age. In 2002, No Child Left Behind reauthorized the Elementary and Secondary Education Act, carrying out the earlier act's original goals with greater focus on the academic achievement of every child using proven educational practices. Today, we increase the circulation of successful educational practices through the creation of the Institute of Education Sciences and through research that implements our Strategic Plan. To that end, we established the What Works Clearinghouse (WWC) to disseminate sound educational information to help teachers and administrators across the country.

Organization

The Department of Education is headquartered in Washington, D.C., along with most of our operations. About one-third of our employees work in 10 regional offices and 12 field offices, facilitating our availability to state and local education systems. As a member of the President's Cabinet, the Secretary of Education is the principal advisor to the President on federal policies, programs, and activities related to education in the United States. Department employees administer 165 programs and provide support for various operational, budget, and external relations activities.

During the 2003 fiscal year, the Department underwent a significant organizational adjustment to align our structure with our Strategic Plan. Finance, budget, management, and strategic planning activities were centralized in the office of the Deputy Secretary while program and policy offices were moved within the supervision of the Under Secretary. Significant restructuring also occurred within program areas. The Office of Educational Research and Improvement was replaced by the Institute of Education Sciences (IES), which focuses on more rigorous research into instructional practices to identify evidence-based activities that aid student performance. The Office of Innovation and Improvement was created to champion and support "outside the box" thinking on effective educational practice and to provide guidance for the school choice and supplemental services provisions of NCLB. The Office of Safe and Drug Free Schools was established to concentrate policy and practice toward successful drug and violence prevention in elementary, secondary, and higher education. Also, the former Planning and Evaluation Service was divided into several parts: (1) the Strategic Accountability Service, to plan and track Department performance; (2) the Policy and Program Studies Service, to perform technical evaluations of Department-funded programs; (3) the Office of International Affairs, to coordinate the Department's profile in activities outside the United States; and (4) the National Center for Education Evaluation and Regional Assistance, created within IES, to examine federal initiatives and direct rigorous research to improve the quality of instructional practices. Also, the Office of Federal Student Aid (FSA) reorganized to better manage risk, establishing structures for enhanced program management and contract support for FSA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OFFICE OF SAFE AND DRUG-FREE SCHOOLS
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OFFICE FOR CIVIL RIGHTS
OFFICE OF FEDERAL STUDENT AID
OFFICE OF THE CHIEF INFORMATION OFFICER
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STRATEGIC ACCOUNTABILITY SERVICE

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integration and new technology solution initiatives. All of these reorganization efforts link to the Department's Strategic Plan, focusing our efforts squarely on the six strategic goals around which our mission is structured.

Civil Rights Enforcement

President Bush has said that education is a civil right. Secretary Paige, in his January 8, 2003, remarks on the first anniversary of the passage of NCLB, stated that through the implementation of NCLB, America has embraced the President's vision, and it is a national duty to ensure that every child in the public schools gets a good education. The Department's Office for Civil Rights (OCR) is responsible for ensuring the fair, effective, and efficient enforcement of civil rights laws that prohibit discrimination on the basis of race, color, national origin (Title VI of the Civil Rights Act of 1964), sex (Title IX of the Education Amendments of 1972), disability (Section 504 of the Rehabilitation Act of 1973 and Title II of the Americans with Disabilities Act of 1990), and age (Age Discrimination Act of 1975) with respect to recipients of federal financial assistance. These laws protect more than 53 million students attending elementary and secondary schools and more than 15 million students attending colleges and universities.[13]

In FY 2003, the Department received approximately 5,000 complaints of discrimination and resolved approximately the same number. Most cases addressed a single OCR legal jurisdiction. Fifty percent of the complaints OCR received were made solely on the basis of disability, 19 percent on the basis of race/national origin, 7 percent on the basis of sex, and 1 percent on the basis of age. The remaining 23 percent of cases either involved multiple jurisdictions above or did not fall clearly into any jurisdiction; in the latter case, OCR received and appropriately transferred many complaints that were outside its statutory responsibilities. In addition to investigating complaints, we initiated approximately 70 compliance reviews and engaged in other proactive activities, particularly emphasizing the importance of implementing high-quality research-based reading programs for minorities in special education initiatives and ensuring that school districts develop evaluation plans of their research-based language acquisition programs. We also provided technical assistance on a variety of issues to inform beneficiaries of their rights and recipients of their obligations.

The Department's FY 2003 civil rights enforcement activities had a profound influence on the lives of students at all educational levels across the country. For example, when OCR monitored agreements entered under our Title VI authority to serve English language learners, we found that they are progressing and graduating equally with their English-speaking peers in many school districts. English language learners are increasingly being provided equal opportunities for participation in special education, advanced courses, and extracurricular activities. As a result of school districts' or higher education institutions' implementation of agreements dealing with access for mobility-impaired individuals under Section 504 and Title II, recipients modified athletic facilities, classrooms, and stadiums and provided accessible parking, restrooms, and water fountains.

Executive Summary

Performance Highlights

Under the leadership of President Bush and Secretary Paige, the Department is making good on our promise that no child will be left behind.

In 2002, NCLB signaled a new era for the American public. The heart of NCLB is captured in the words of Secretary Paige, "The mission of NCLB is to fundamentally change the way we educate our children in America—to change our public schools from a system that does a good job educating some of the children to a system that's held accountable for educating every child, from every walk of life."

To make good on the promise to ensure that no child is left behind, the Department established six clear goals:

1. Create a culture of achievement.
2. Improve student achievement.
3. Develop safe schools and strong character.
4. Transform education into an evidence-based field.
5. Enhance the quality of and access to postsecondary and adult education.
6. Establish management excellence.

Goal Overviews

Goal 1: Create a Culture of Achievement. NCLB holds states and local school districts accountable for raising academic achievement and for taking direct action to improve poorly performing schools in exchange for federal aid. A central feature of the law requires the states to adopt annual testing and new statewide accountability systems intended to promote high academic achievement for all children. In exchange for states' implementation of new accountability systems, poorer school districts receive additional federal funding, and all states and school districts have greater flexibility in how they use federal funds. Each school district must issue a report card to parents and the public that describes state test results for students in the district by individual school, including identifying those schools in the district that are "in need of improvement" under the state accountability system. Options for parents of students attending Title I schools identified as in need of improvement include supplemental services—such as tutoring or after-school services—or transferring their students to a higher-performing public school, which may include a public charter school within the school district. Parents also have the right to receive information on the qualifications of teachers in a school, such as whether teachers are state certified and licensed or whether they are teaching with provisional certificates. NCLB seeks to provide data for decisions parents, teachers, and administrators need to make by integrating scientifically based research into federal programs. With research-based evidence pointing the way to what works, the Department anticipates cumulative advances in the quality of American education.

Key results for Goal 1 include the following:

- The Department reviewed and approved each state's accountability plan as meeting the requirements of NCLB, including having every child proficient in reading and mathematics by the 2013–14 school year.
- The Department exceeded the target for customer satisfaction as measured by our FY 2003 survey. Sixty-eight percent of Chief State School Officers expressed overall satisfaction with the Department.

Goal 2: Improve Student Achievement. School success for students begins with learning to read well. NCLB underscores the need for early reading success by establishing that all students learn to read well by the end of third grade. To assist states as they work toward that goal, the Department supports and disseminates scientifically based research evidence on what works in early reading instruction. The Department also supports the professional development of mathematics and science teachers to improve student achievement in these subjects at the elementary and secondary levels. A new focus in high school will emphasize curriculum to better prepare students for postsecondary education, training, and careers. To ensure that all students have high-quality teachers, the Department awards funds to states, districts, and universities to improve the quality of teaching and principal leadership.

Key results for Goal 2 include the following:

- Average NAEP mathematics scores for fourth and eighth graders were higher in 2003 than in all previous assessment years; average NAEP reading scores for fourth graders were higher in 2002 than in previous years and showed no significant change in 2003.
- The Department created the Teacher Assistance Corps to provide voluntary support to states as they carry out the "highly qualified teacher" provisions of NCLB.

Goal 3: Develop Safe Schools and Strong Character. Whether a child is the victim of a bully or coping with the aftermath of a natural disaster, children rely on and find great comfort in the adults who protect them. In addition to parents and family elders, children look to teachers and school administrators to provide a learning environment where they are safe and respected. A safe learning environment is absolutely necessary for student learning; without it, the best teachers, curriculum, and teaching methods are ineffectual. As a part of the community, schools have enormous potential to support child development, self-perception, and character.

The Department works to develop safe schools and strong character through initiatives to promote crisis planning, substance abuse reduction, and character education. The Department is promoting comprehensive school safety planning, which involves law enforcement and health officials in planning and plan execution during crises. In FY 2003, we awarded $138 million in grants to prevent substance abuse among elementary, secondary, and postsecondary students. To promote strong character in the nation's students, our character education and citizenship programs promote a climate of respect among students.

Key results for Goal 3 include the following:

- The Department provided critical assistance to schools in the areas of crisis planning, management, and response, to meet the escalated needs created by the tragedy of 9/11.
- Reductions in youth violence have occurred over the last several years.

Goal 4: Transform Education into an Evidence-Based Field. The Department spent roughly $53 billion in FY 2003 in discretionary appropriations on education programs authorized by Congress. By better aligning programs with evidence grounded in scientifically based research, the Department can exert substantial influence on implementing education programs that work. IES has taken a leadership role in the transformation of education into an evidence-based field. IES draws funds from national activities and evaluation set-asides to undertake rigorous research and evaluation. Program offices, assisted by IES, are working to provide preference in discretionary grant making to those applicants who either propose to implement programs that have evidence of effectiveness or who propose to collect rigorous evidence on the effectiveness of their program activity. The IES role of research oversight is complemented by the research responsibilities of the National Institute on Disability and Rehabilitation Research (NIDRR). NIDRR supports a comprehensive and coordinated program of research focused on improving the lives of persons of all ages with disabilities. We are committed to effecting continuous improvement in federal, state, and local education policy and practice by identifying and providing ready access to the best available scientific research evidence on effective programs, products, and strategies.

Key results for Goal 4 include the following:

- The creation of the IES to lead the Department's work in making education an evidence-based field.
- The implementation of the What Works Clearinghouse, which provides educators, policy makers, and the public with a central, independent, and trusted source of scientific evidence for what works in education.

Goal 5: Enhance the Quality of and Access to Postsecondary and Adult Education. About 45 percent of the Department's expenditures in FY 2003 were allocated for postsecondary and adult education support. The Department provided support for enhancing both the quality of and access to postsecondary and adult education and employment in multiple ways. The largest allocation of funds provided financial aid to increase access to postsecondary education. In addition, the Department helped institutions of higher education improve their quality, provided mentoring and tutoring services to help students master the knowledge needed to get into and complete college, informed middle and high school students about what it takes to go to college, continued to provide support to help people with disabilities participate fully in society, and provided adult education and basic literacy education services to nearly 3 million adults who lack a high school diploma or proficiency in English. These efforts reflect the Department's commitment to high-quality higher education and the responsibility to help prepare Americans for employment in a competitive marketplace.

The nation's student loan cohort default rate for FY 2001 is at an all-time low of 5.4 percent. This reflects a concerted effort by the Department and our student aid partners to increase borrower awareness of repayment obligations, to track borrower delinquencies, and to counsel borrowers who fall behind in their payments. The Department has also removed 1,200 schools with high default rates from the student loan programs in the last decade. In addition, the length of time for a delinquent borrower to default on a student loan has been extended from 180 to 270 days since cohort year 1998. Historical analysis (see Student Loan Cohort Default Rate Chart on page 89) indicates a downward trend in cohort default rates even after the implementation of the 1998 extension. The impact of Department intervention appears to be the driving force behind the recent decline in cohort default rates.

Key results for Goal 5 include the following:

- Federal funds leveraged the provision of $61 billion in grants and loans to enable 8.9 million students to enroll in postsecondary studies. Of this amount, approximately $44 billion was not in the budget but was provided through Treasury Department funds to support Federal Direct Student Loans and private loan capital to support Federal Family Education Loans.
- Effective implementation of grant programs that focus on strategies for encouraging minority and poor children to attend college.

Goal 6: Establish Management Excellence. Excellence and accountability for results apply to the Department as well as to America's schools. The Secretary has established high expectations for the Department's performance and fiscal accountability in the *Strategic Plan* and *Blueprint for Management Excellence* (*Blueprint*). The *Blueprint* establishes a road map for management improvement to make the Department a model of management excellence among federal agencies. During the first two years of Secretary Paige's leadership, the implementation of the *Blueprint* established a solid management foundation for the Department and resolved many long-standing management problems. The sweeping management improvements undertaken by the Department have enhanced our ability to focus on improving the quality of education for all Americans.

The *President's Management Agenda (PMA)* is the President's strategy for improving management within the federal government through performance-based management and strong accountability for results. Each of the governmentwide and Department-specific initiatives in the *PMA* is integrated into Goal 6. The Department's objectives for fiscal integrity, the management of human capital, the use of electronic government, and budget and performance integration represent the agency's plan for implementing the *PMA*. Department-specific management objectives include modernizing the Student Financial Assistance programs, leveraging the contributions of faith-based and community organizations, and earning the President's Quality Award. The *Blueprint* has been revised with specific actions for FY 2004 necessary to ensure continuous improvement of the Department's financial management, staff performance, operational efficiency, and effectiveness at improving education.

Key results for Goal 6 include the following:

- A second consecutive unqualified audit opinion.
- Significant progress in implementing One-ED, the Department's integrated five-year human capital, strategic sourcing, and restructuring plan.

Strategic Planning and Reporting

These goals are at the foundation of three documents that show where we've been and where we want to be. These documents, rooted in the Government Performance and Results Act of 1993 (GPRA), hold the Department accountable for program performance by requiring that we think strategically and set measures and report targets annually.

First, the Department's *Strategic Plan* 2002–2007 established the six goals around which we carry out our mission. For each goal, we delineated objectives, strategies, and measures by which success would be determined.

Second, our 2002–2003 *Annual Plan* identified a series of action steps, reaffirmed Department-wide measures and targets as set in our *Strategic Plan*, and, in an online component, set performance measures and targets for over 100 of our statutorily authorized grant programs.

Third, this document, the *FY 2003 Performance and Accountability Report*, reveals how well the Department addressed priorities during the past fiscal year, allowing us to assess the progress and challenges of our mission in terms of results. It links overall program performance with our financial operations and management. An online component of this document shows how well Department programs met their performance targets.

With NCLB now in its second year, we are beginning to accumulate data with regard to the performance indicators that we have established. Some of these data affirm the progress we have made over the past year, and other data show that we have much work left to do. These planning and reporting documents help the Department assess challenges and conceive solutions, measure the impact of policies in the field, and redirect strategies based on the results. The continuous planning and reporting cycle spurs us on to further policy refinements, strategic program administration, and thoughtful reflection on achievements to constantly improve the effectiveness of educational practice for the benefit of the American people.

Integration of Performance with Budget and Finance

For many years, little emphasis was placed on the results of investments in federal programs. In recent times, however, the Department of Education has worked hard to ensure the availability of data to integrate budget and performance.

Budget and Performance Integration under the *President's Management Agenda*. During FY 2003, the Department made significant strides to integrate budgeting with performance information for strategic goals and specific program measures. With regard to the *President's Management Agenda* scorecard, the Department has presented the Office of Management and Budget (OMB) with a functional plan to upgrade our status on the budget and performance integration component by July 1, 2004.

The Department has already demonstrated a commitment to budget and performance integration by the publication of this document, which is being submitted to the public only 45 days after the end of the fiscal year. Although this accelerated timeframe is mandated for all federal agencies for the FY 2004 Performance and Accountability Reports, the Department voluntarily decided to meet the November deadline for the FY 2003 report, showing our seriousness in providing important information to the public quickly and comprehensively.

Program Assessment Rating Tool. In 2002, OMB initiated a systematic assessment of the quality of government programs. Through the use of the Program Assessment Rating Tool (PART), OMB began to work with agencies to evaluate programs on their stated purpose, strategic planning, management, and results and accountability. Although intended to be a diagnostic tool for programs, PART reviews provide critical information that can be used in establishing funding priorities for the subsequent budget cycle, with highly rated programs expected to receive greater support than others. The Department has used information from PART reviews to guide budget, legislative and administrative decisions.

By the end of FY 2003, OMB had conducted PART reviews on 33 Department programs representing the majority of our annual budget authority, determining the progress each program has made toward demonstrating relevance and quality outcomes. Programs that have been rated so far have been challenged to develop salient performance measures with long-term targets, to use information gleaned from these measures to improve their performance, and to demonstrate how they serve a vital purpose more effectively than other similar efforts. By 2006, all Department programs are expected to be rated through the PART.

Crosswalk of Net Cost to Strategic Plan Goals. This *Performance and Accountability Report* marks a significant alignment of financial data and performance priorities. For the first time, estimates of net costs are calculated for each program such that costs are clearly differentiated among the Department's six strategic goals. Each of the Department's 165 programs is aligned with a specific goal, with estimated costs assigned accordingly. Thus, costs clearly reflect the discrete priorities of the *Strategic Plan*.

Fast Facts. Beginning with the third quarter of FY 2003, the Department developed a summary of financial and performance information to be used by senior management to inform critical decision making on key leadership issues. An eight-page executive summary of key information, which includes detailed data at the principal office level, this *Fast Facts* document facilitates the presentation of important financial and performance metrics into a coherent management statement. *Fast Facts* will be updated quarterly and used to make management decisions on a regular basis, meeting an important criterion of budget and performance integration.

Integrating Performance Plan into Budget. During FY 2003, the Department for the first time began the integration of the annual performance plan into the submission of the budget to OMB. For the FY 2005 budget submission, the budget and annual plan were formulated concurrently, establishing performance targets that are expected for a number of programs as a result of the Department's budget proposal.

Funding Challenges. The challenges of budget and performance integration are complicated by the availability of funding for programs. In the Department, only a portion of a given fiscal year's appropriations are actually available for obligation to grantees during a fiscal year; the rest of a year's appropriation is available to states, schools, and students in the subsequent year. Thus, linking appropriated funds and program results for a particular fiscal year is not only complex but also different for different programs. For example, large programs such as Title I and IDEA State Grants receive both "forward funded" and "advance" appropriations. FY 2003 funds for these programs were not available for award until July 2003 (during FY 2003) and October 2003 (beginning of FY 2004). They were awarded at that time for use primarily during the 2003–04 school year, and these funds can be carried over for obligation at the state and local levels through the end of September 2005. Meanwhile, in student aid programs, most of the contracts and grants and some of the subsidies producing performance during the year of the annual report are the result of prior-year obligations while others are the result of obligations made during the annual report year. Thus the results we see during FY 2003, which are to be measured for this report, are not primarily the results of FY 2003 funds, but rather the combination of funds from FY 2001, FY 2002, and FY 2003.

Although we cannot isolate program results and link them directly to a fiscal year, performance during a single program year serves as a proxy because most of our programs are ongoing. Therefore, in the spirit of budget and performance integration, this report shows the approximate proportion of both appropriated and expended FY 2003 funds that support each of the Department's strategic goals and objectives.

Executive Summary

Financial Highlights

Overview

The passage of the NCLB Act marks the most significant shift in federal education policy in 35 years. This Act demands progress and achievement from all parties receiving federal funds from the Department. It embraces the principles supported by the President: accountability for results, flexibility and local control, expanded parental options, and doing what works.

Consistent with the spirit of NCLB, the Department has applied the basic tenets of accountability for results to its fiscal operations. We have demonstrated our commitment to NCLB throughout this fiscal year with the adoption and execution of our annual plan and *Blueprint*.

This *Performance and Accountability Report* further describes and illustrates our commitment to fiscal accountability and the effective stewardship of all the funds that the Department receives to carry out our mission. In FY 2003, we achieved our second consecutive unqualified audit opinion, the third clean opinion in our history. These accomplishments were only the beginning—repeating, or maintaining, the unqualified audit opinion has become a critical component of our cultural paradigm shift toward accountability for results.

Significant progress in financial management has been made in FY 2003. Throughout the fiscal year, financial managers in the Department have sought to improve our financial reporting and overall financial management.

Departmental Management

The Department continues to implement our *Blueprint*, a long-term action plan for improving Department management that incorporates key features of the *PMA*. The *Blueprint* sets priorities for management improvement designed to facilitate effective monitoring of Department programs; eliminate financial management deficiencies; and prevent fraud, waste, and abuse of taxpayer dollars. These priorities include the following:

- Developing and maintaining financial integrity and tighter internal controls.
- Improving management of human capital.
- Managing information technology to meet customer needs.

As part of the Department's continued efforts to improve fiscal management, we have initiated a new program to revise and enhance our financial reporting capabilities. During FY 2003, we implemented a performance-based financial reporting system. This system simultaneously embraces the concepts of GPRA and incorporates the principles of the *PMA*. The basic premise of both GPRA and the *PMA* dictate (1) establishing a strategic plan with programmatic goals and objectives, (2) developing appropriate measurement indicators, and (3) measuring performance in achieving those goals. The newly revised financial reporting system fully captures and integrates the concept of measuring budget appropriations against performance results.

The *PMA* then takes this basic concept one step further. It requires that departments and agencies show results to justify the funding levels of their programs.

Moving to this performance-based financial reporting system has been challenging for the Department. Accurately measuring and relating program performance goals to financial information has been no easy task. To accomplish this conceptual reporting change, a significant culture change was required. This involved the diligent monitoring and measuring of programs that have been authorized and funded.

In FY 2003, the Department produced our first executive management report (*Fast Facts*) that provides the Department's Management Team with insights into Education's operations. This report is only the first in a series of executive management reports. It supports the *PMA* and incorporates the spirit of GPRA by providing internal visibility into our budget and cost structures and linking them to performance measures.

This progressive report would not have been possible without the ability to quickly compile, review, and analyze financial data. This is a direct return on our FY 2002 investment in technology and financial systems.

The Department is aggressively addressing many improved financial performance standards. The Department regularly reports to executive management on a detailed plan of action, including milestones and measures.

Business Segments

During FY 2003, the Department managed a budget of $62.9 billion, of which 57 percent went toward elementary and secondary programs and grants. Postsecondary grants and loans accounted for 37 percent. The remaining 6 percent went toward other programs and grants including research, development, and dissemination, as well as rehabilitation services.

Recent management initiatives have reduced federal administrative expenditures to approximately 2 percent of the Department's total budget. This means that the Department delivers about 98 cents on the dollar for education assistance to states, school districts, postsecondary institutions, students, and other beneficiaries.

The Department has three primary business segments as mentioned above: Grants, Guaranteed Loans, and Direct Loans.

Grants. A significant part of the Department's budget is used to support ongoing programs, including the implementation of the NCLB. This support is provided to state and local governments, schools, individuals, and others that have an interest in educating the American public.

The two largest programs, Title I grants for elementary and secondary education and Pell Grants for postsecondary financial aid, each exceed $10 billion. Special Education Grants to States under IDEA totaled more than $9 billion in FY 2003.

Guaranteed Loans. The Federal Family Education Loans (FFEL) program makes loan capital available to students and their families through approximately 4,000 private lenders. There are 36 active state and private nonprofit Guaranty Agencies that administer the federal guarantee protecting FFEL lenders against losses related to borrower default. The FFEL program accounts for about 70 percent of student loan volume. As of the end of September, the total principal balance outstanding of guaranteed loans held by lenders was approximately $213 billion with the government's estimated maximum exposure being $209 billion.

Direct Loans. Student Financial Assistance programs assist nearly 9 million students to afford college each year. The Direct Loan program is one method for delivering assistance to the students of our nation. The Student Loan Reform Act of 1993 created this program, which uses Treasury funds to provide loan capital directly to schools, which then disburse loan funds to students. The Direct Loan program accounts for approximately 30 percent of the new student-loan volume. In FY 2003, the Department disbursed approximately $18 billion in direct loans to eligible borrowers.

Financial Position

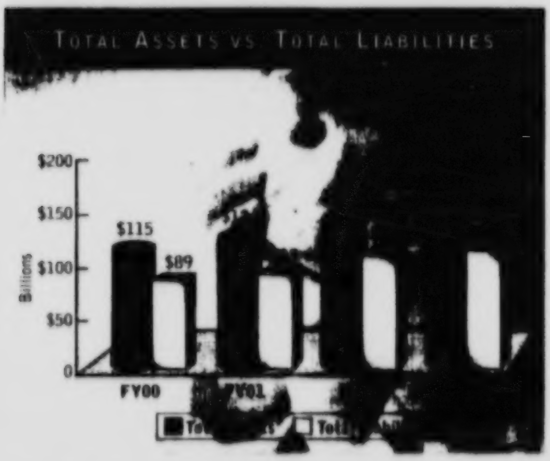
The Department's financial statements, which appear on pages 116 through 120, received for the second consecutive year an unqualified audit opinion issued by the independent accounting firm of Ernst & Young, LLP. Preparing these statements is part of the Department's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources. Department management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements and financial data presented in this report have been prepared from the accounting records of the Department of Education in conformity with Generally Accepted Accounting Principles

(GAAP) in the United States of America. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

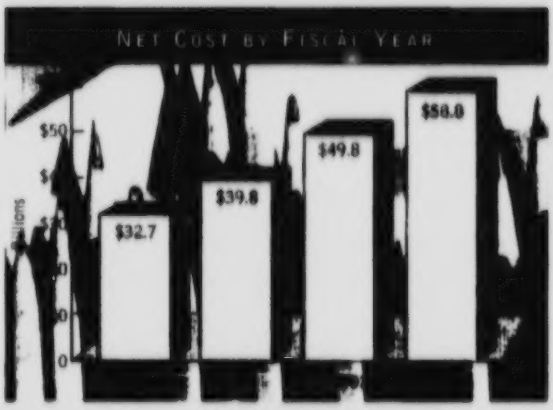
The Department's financial management intends to optimize utilization of available resources, thereby increasing the ability to meet the Department's strategic goals.

Balance Sheet. The Balance Sheet displayed on page 116 reflects total assets of $157 billion, an 8 percent increase over the previous year. This increase is attributable to the continuing implementation of the NCLB and the steady growth of the Student Financial Assistance programs.


TOTAL ASSETS VS. TOTAL LIABILITIES

The majority of our liabilities, 85 percent, consist of intragovernmental liabilities. The Department's intragovernmental liabilities consist mainly of Treasury debt, which is primarily the result of the Department's focus on ensuring that funds are available for any student desiring a postsecondary education.

Several factors influenced the change in the Department's Net Position during FY 2003. This includes the timing of the execution of prior year subsidy re-estimates and the Department's effective management of program funds. Net Position increased by 11.6 percent over FY 2002.


NET COST BY FISCAL YEAR

Statement of Net Cost. The Department's costs are consistent with the Strategic Goals, the *PMA*, and the appropriated budget. The Department experienced an 18 percent increase in total net cost during FY 2003.

The Enhancement of Postsecondary and Adult Education (Program A on the Net Cost Statement), which tracks with the Department's funding for Strategic Goal 5, experienced a 17 percent increase over FY 2002. Programs B and C on the Statement of Net Cost, which track with Goals 2 and 3, experienced a 20 percent increase in FY 2003.

Statement of Budgetary Resources. This statement provides information about the provision of budgetary resources and their status as of the end of the reporting period. This statement displayed on page 119 shows that the Department had $118.3 billion in budgetary resources of which $15.1 billion remained unobligated with $11.7 billion not available at year-end. The Department had $58.2 billion in Net Outlays for FY 2003.

Statement of Financing. This statement demonstrates the relationship between an entity's proprietary and budgetary accounting information. It links the net cost of operations (proprietary) with net obligations (budgetary) by identifying key differences between the two statements. This statement displayed on page 120 identifies $63.3 billion of resources used to finance activities, $1.6 billion of resources not part of the net cost of operations, and $1.9 billion of components of net cost of operations that will not require or generate resources in the current period.

Future Trends

Given the large amount of funds under its stewardship, the Department will continue to demonstrate effective administration of our resources and activities. Toward that end, the Department will continue to strategically invest in our intellectual capital. Our investments in both systems and human capital programs are currently yielding significant benefits.

The Secretary's five-year human capital plan represents a key element in the creation of a Department-wide culture of performance excellence and accountability. The plan supports the Department's mission by ensuring that skilled, high-performing employees are available and deployed appropriately. The necessary strategic investments in human capital include training, position and skill assessments, and enhanced employee performance agreements.

Two examples of our investment in training include the Financial Management Certificate Program and the Assignment Exchange Program. The creation of these and other programs is geared to improving overall employee skills and creating opportunities for continued professional growth. The Department expects that these "best practice" financial management training programs will ensure continued improvement in our culture of accountability and reinforce an environment where employees are recognized as valued assets.

The Department's continued strategic investments in both systems and human capital will result in a robust, cost-effective environment. This, in turn, will provide the taxpayers with an improved return on their investment in the Department of Education.

In addition to our continued strategic investments in systems, the Department is committed to the President's and Congress' initiative to reduce improper payments governmentwide. The Department continues to make progress in this area and as required by the Office of Management and Budget Circular A-11, Section 57, we are providing the report on this subject for FY 2003 in the Other Statutorily Required Reports section of this document (see pages 193-194).

Management Challenges

Financial Management. There are two challenges that face the Department in this area: accelerated reporting and the implementation of the upcoming upgrade of the financial accounting system to Oracle Version 11i. The Department made the commitment to issue its statements by November 14, 2003, implementing the FY 2004 accelerated reporting requirement one year ahead of schedule. The Department has also developed a four-tier approach for the implementation of the upgrade to Oracle Version 11i by October 2006.

Federal Student Aid Programs. The Department has several challenges related to reducing the risk of fraud and error in the student aid programs while maintaining access to the programs. They include addressing the falsification of application information for student assistance, program oversight and review, and contract monitoring. The Department is working with OMB and Treasury to propose draft amendments to the Internal Revenue Code that will allow the Department to effectively match information to eliminate falsification of application information. The Department has also taken steps to improve oversight and contract monitoring through electronic access to school information for our case management teams. In addition, the Department has requested that the Office of Inspector General conduct audits of several major contracts. Please refer to the Performance Details under Goal 6 for further discussion of the planned resolution of this issue.

Information Technology. The challenges that face the Department relating to information technology include investment management, security, critical infrastructure protection, and contingency planning. The Department has made significant strides relating to our information technology challenges. The Department implemented a plan to prioritize system weaknesses and is addressing the identified vulnerabilities. The Department has also embarked upon a formal certification and accreditation process for our critical information systems to be completed by December 2003.

Program Performance and Accountability. The Department has several challenges in this area. The challenges we face include data reliability, program and contract monitoring, and program accountability and compliance. As indicated in this report, the Department addressed this issue in the *Strategic Plan FY 2002 - 2007* and the Secretary has made accountability a key priority. The Department established an Insular Affairs Committee to address accountability and compliance issues in the Virgin Islands, Puerto Rico, and the Pacific Outlying Areas.

Human Capital. The General Accounting Office (GAO) placed the Department's strategic management of human capital on its high risk list in 2001 because of the lack of a consistent strategic approach to managing and maintaining the workforce necessary for a more effective and efficient government. The Department has focused significant resources on addressing a consistent approach and on developing and implementing a human capital management plan.

Executive Summary

Management Controls

The Department of Education is committed to management excellence and recognizes the importance of strong financial systems and internal controls to ensure accountability, integrity, and reliability. The Department has made significant progress and continues our work toward achieving a culture of accountability. Management, administrative, and financial system controls have been developed to ensure the following:

- All programs and operations achieve their intended results efficiently and effectively.
- Resources are used in accordance with the Department's mission.
- All programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable, complete, and timely data are maintained and used for decision making at all levels.

We believe that the rapid implementation of audit recommendations is essential to improving the efficiency and effectiveness of our programs and operations and to achieving our integrity and accountability goals.

Federal Managers' Financial Integrity Act

During FY 2003, in accordance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and using the guidelines of the Department and of OMB, the Department reviewed our management control system. The objectives of our management control system are to provide reasonable assurance that the following occur:

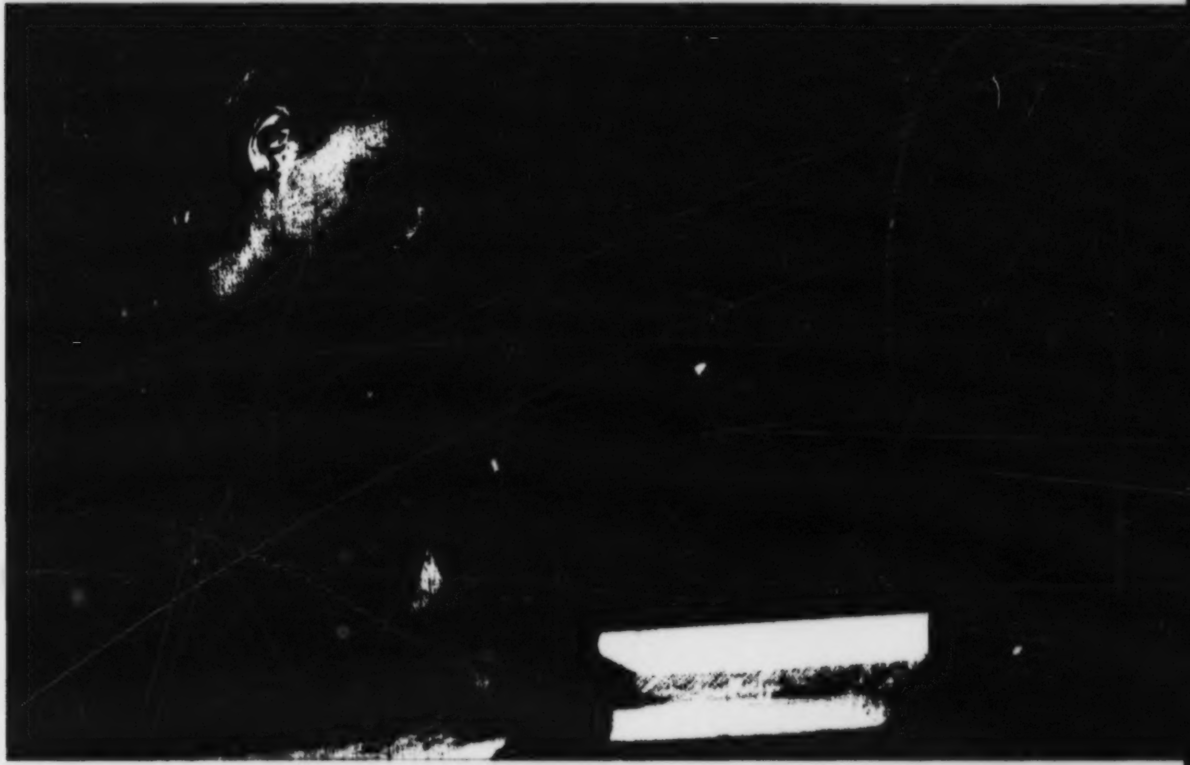
- Our obligations and costs are in compliance with applicable laws.
- Our assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets.
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the GAO, the Office of Inspector General (OIG), specifically requested studies, and/or observations of daily operations. These reviews ensure that our systems and controls comply with the standards established by FMFIA. Managers throughout the Department are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from Assistant Secretaries serve as a primary basis for the Department's assurance that management controls are adequate. The assurance statements are based upon each principal office's evaluation of progress made in correcting any previously reported problems, new problems identified by OIG, GAO, and other management reports, and the management environment within each Principal Office. Department organizations that have material weaknesses identified are required to submit plans for correcting those weaknesses. The plans, combined with the individual assurance statements, provide the framework for continually monitoring and improving the Department's management controls.

Statement on Management and Financial Controls

For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), I am pleased to report that the Department of Education accounting systems and management controls, taken as a whole, provide reasonable assurance that the objectives of FMFIA have been achieved.

—Rod Paige
Secretary of Education



FMFIA Section 2, Management Control. Of the 80 internal control material weaknesses identified since the inception of the Act, all have been corrected and closed. During FY 2003, the Department completed substantial corrective actions on the following previously reported weaknesses, and they are no longer considered material.

- Quality of data needed to support management decisions.
- Foreign school recertification.
- Information technology (IT) security program. The Department has made sufficient improvements to remove the IT Security Program as an FMFIA material weakness. However, the Department does have IT security weaknesses under the Federal Information Security Management Act (FISMA) and related IT security laws and regulations.

Last year, the IT Security Program was cited as a material weakness under FMFIA. At that time, the Department had 19 overarching IT security material weaknesses under the Government Information Security Reform Act (GISRA) and 487 weaknesses listed in our FISMA Plan of Actions and Milestones (POA&M). The majority of security findings from the first GISRA audit were still open and the Department's IT Security Program lacked controls, priority, and focus. The second GISRA audit work was nearing completion, and the OIG system vulnerability scans had discovered many further significant weaknesses. Actions also remained open for five additional security audits reaching back to FY 2000.

Significant improvements in the Department's IT Security Program have been made during the last year. The Department corrected 17 of the overarching GISRA weaknesses and is on schedule to remediate the remaining two by the second quarter of FY 2004. The Department also corrected 327 of the POA&M actions, and the remaining actions are all related to the completion of certification and accreditation (C&A) of all systems. All mission-critical systems have finalized required National Institute of Standards and Technology (NIST)-compliant security documentation and are waiting in the queue to complete the C&A review process. All findings from the first GISRA audit and all but two findings from the second GISRA audit have been corrected. The remaining two findings from the second GISRA audit are on schedule to be remediated by the second quarter of FY 2004. Findings from four of the five additional security audits that were open at this time last year have been completed. The remaining fifth audit is on schedule to be remediated by the first quarter of FY 2004.

Department-wide policies, procedures, and guides (24 separate documents) supporting a comprehensive IT security program have been published. A Department-wide incident-handling program has been established and published. This has resulted in quick implementation response to FEDCirc alerts, as well as established a process for reporting and sharing of incident information. Security awareness and specialized security training have been strengthened throughout the Department based on the newly published IT Security Training and Awareness Program Plan. A newly established specialized security-training requirement was met with 100 percent completion by those identified with IT security responsibilities. Security classes customized to meet the Department's specific needs were developed and delivered on six different topics. Full integration of IT, personnel, and physical security is underway; and the role of IT security in the Department's IT capital planning and investments has been strengthened.

The Department has also developed a functioning Continuity of Operations Plan (COOP) and is finalizing Business Continuity Plans (BCP) for every program office. Successful disaster recovery plan (DRP) cutover tests were completed for the Department's main network (EDNet) and main financial system (EDCAPS). All student aid systems also completed DRP tests.

Both network- and host-based intrusion detection services (IDS) were installed on 300 critical EDNet servers. Additional EDNet staff resources were dedicated to security monitoring and protection. Virus protection was strengthened and now includes scanning of the firewall, Exchange mail servers, network servers, and workstations. Alternate e-mail sources outside of the Exchange were removed. A dramatically improved firewall was successfully installed on EDNet. Unused network ports have been closed and port security is being implemented. Numerous virus and hacking attempts have been successfully blocked, and early detection and correction of internal worms have kept the network functioning and available to the Department. A password-protected screen saver has been enforced on all Department workstations. Remote access to the Department's network has been restricted to Citrix. Standardized security configurations have been implemented on servers and routers, and consistent patch and version updates have been implemented. Memoranda of Understanding (MOU) have been established among 29 principal offices or interconnected systems and the Department's network that clearly define system boundaries and security standards and responsibilities. All of the above demonstrate a distinct focus and prioritization on IT security, as well as a dramatic improvement in the application of security controls.

The Department still has an IT security material weakness under FISMA because we have not completed C&A on all operational systems. However, the Department has launched our C&A program based on standards that are fully compliant with preliminary NIST guidance. Ten systems, including the Department's main financial system, EDCAPS, and the data center supporting the majority of the Student Aid systems (the Virtual Data Center) have successfully completed C&A. All remaining mission-critical systems have entered the formal C&A review process and are on schedule to complete C&A by the first quarter of FY 2004. All other systems are due to complete C&A by the first quarter of FY 2005.

The Department has additional remaining IT security material weaknesses under FISMA because improvements are needed in individual system security configurations. In addition, the OIG completed a review of the Department's critical infrastructure assurance program during FY 2003 that contained additional recommendations regarding IT security. A corrective action plan has been put in place for the critical infrastructure assurance program with all recommendations scheduled for completion by June 2004. The OIG recently issued reports on contingency planning in FSA systems and the Department's implementation of FISMA. Corrective Action plans for the additional recommendations are being developed. In the case of the FISMA report, the Department has already begun to correct many of the weaknesses cited even though the corrective action plan has not been finalized.

Although the Department is not yet fully compliant with FISMA, and material weaknesses exist under FISMA, the numerous improvements outlined above demonstrate that we have put in place the controls necessary to completely certify and accredit the Department's systems and address the system-specific security vulnerabilities identified in this year's OIG FISMA report. The Department has evidenced strong management improvement in the area of IT security. The remaining two financial systems that are finalizing C&A have completed all required documentation and system remediation and are in the final stages of the C&A independent review process. Both systems, the FSA FMS and the FSA Common Origination and Disbursement system, are expected to be fully certified and accredited by December 31, 2003. In addition, the Department has made significant progress implementing the actions contained in the FISMA POA&M and has closed all but two of the 26 recommendations from last year's OIG GISRA audit. The Department will continue to aggressively monitor and implement additional IT security corrective actions during FY 2004. The significant progress the Department has made in IT security during FY 2003 has allowed the Department to remove the IT Security Program as a Department-wide material weakness under FMFIA.

The Department did not declare any new material weaknesses under FMFIA during FY 2003.

FMFIA Section 4, Financial Management Systems. Of the 95 financial management systems nonconformances that have been identified, all have been corrected and closed.

The Department did not declare any new material nonconformances under FMFIA during FY 2003.

Executive Summary

Education's Scorecard on the *President's Management Agenda*

Under the *PMA*, the Executive Branch Management Scorecard tracks how well the departments and major agencies are executing the five governmentwide initiatives and other program-specific initiatives. The Scorecard employs a simple grading system common today in well-run businesses: green for success, yellow for mixed results, and red for unsatisfactory.

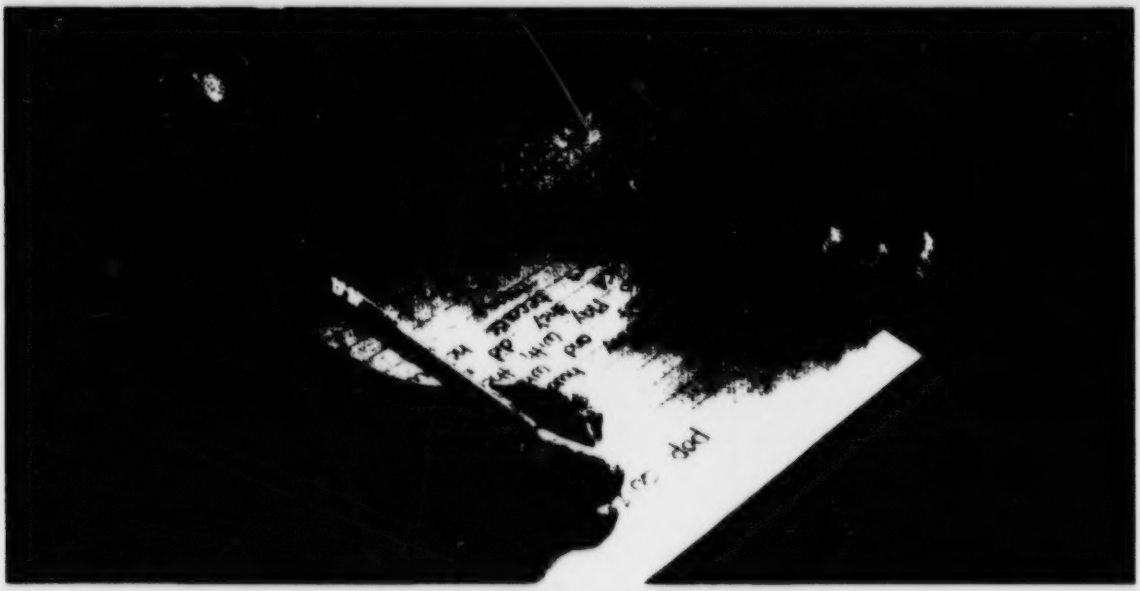
Status. Scores for "status" are based on standards for success published in the President's FY 2003 Budget. The standards for success were defined by the President's Management Council and discussed with experts throughout government and academe, including individual fellows from the National Academy of Public Administration. Under each of these standards, an agency is green if it meets all of the standards for success, yellow if it has achieved some but not all of the criteria, and red if it has even one of any number of serious flaws.

Progress. OMB assesses agency "progress" on a case-by-case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency as follows: green, implementation proceeding according to plans agreed upon with the agencies; yellow, some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and red, initiative in serious jeopardy, unlikely to realize objectives absent significant management intervention.

Department of Education Results. The Department maintained a green for progress for each initiative, demonstrating our commitment to the *PMA*. For four initiatives, our status moved from red to yellow during FY 2003.

- Human Capital.
- Competitive Sourcing.
- E-government.
- Elimination of fraud and error from the Student Financial Assistance programs.

The scorecard is available at http://www.results.gov/agenda/scorecard.html.



President's Management Agenda
FY 2003 Scorecard

	Target Area		Q1	Q2	Q3	Q4
Governmentwide Initiatives	Human Capital	Status	R	Y	Y	Y
		Progress	G	G	G	G
	Competitive Sourcing	Status	R	R	Y	Y
		Progress	G	G	G	G
	Financial Performance	Status	R	R	R	R
		Progress	G	G	G	G
	E-government	Status	Y	Y	Y	Y
		Progress	G	G	G	G
	Budget-Performance Integration	Status	R	R	R	R
		Progress	G	G	G	G
Program Initiatives	Elimination of Fraud and Error in Student Financial Aid Programs	Status	R	Y	Y	Y
		Progress	G	G	G	G
	Faith-Based and Community Initiative	Status	Y	Y	Y	Y
		Progress	G	G	G	G

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Executive Summary

Endnotes

[1] U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2002*, Table 2. Available at http://nces.ed.gov/pubs2003/digest02/tables/dt002.asp.

[2] *Ibid.*

[3] U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2002*, Table 8. Available at http://nces.ed.gov/pubs2003/digest02/tables/dt008.asp.

[4] U.S. Department of Commerce, Bureau of Economic Analysis, constructed table of per capita personal income between 1950 and 2000, available on the Internet at http://www.bea.doc.gov/bea/regional/spi; and U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index comparison from 1950 to 2000, available at http://www.bls.gov/cpi (go to Get Detailed Statistics, Inflation Calculator).

[5] U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2002*, Tables 111 and 123. Available at http://nces.ed.gov/pubs2003/digest02/tables/dt111.asp and http://nces.ed.gov/pubs2003/digest02/tables/dt123.asp.

[6] U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2002*, Table 183, available at http://nces.ed.gov/pubs2003/digest02/tables/dt183.asp; and *Condition of Education 2003*, Table 22-1, available at http://nces.ed.gov/pubs2003/2003067.pdf; and Graduation Rate Survey (GRS) as part of the Integrated Postsecondary Education Data System (IPEDS).

[7] U.S. Department of Commerce, U.S. Census Bureau, *Median Income of People by Selected Characteristics, 2001, 2000, and 1999.* Table available at http://www.census.gov/hhes/income/income01/inctab7.html.

[8] U.S. Department of Education, National Center for Education Statistics, National Assessment of Educational Progress, various tables relating to reading and mathematics scores broken out by Student Eligibility for National School Lunch Program. Available for reading information at http://nces.ed.gov/nationsreportcard/reading/results2003/natscalescore.asp (view Tables 6 and 7 in the complete data with standard errors by grade level at either Grade 4 or Grade 8). Available for mathematics information at http://nces.ed.gov/nationsreportcard/mathematics/results2003/natscalescore.asp (view Tables 6 and 8 in the complete data with standard errors by grade level at either Grade 4 or Grade 8).

[9] U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2002*, Table 168. Available at http://nces.ed.gov/pubs2003/digest02/tables/dt168B.asp.

[10] Organization for Economic Cooperation and Development, *Education at a Glance 2003*. Paris: 2003. Tables A5.2, A6.1, A6.2 and B1.1. Available at http://www.oecd.org/document/52/0,2340,en_2649_37455_13634484_1_1_1_37455,00.html.

[11] U.S. Department of Education, National Center for Education Statistics, National Assessment of Educational Progress, *Reading 2003 Major Results* and *Mathematics 2003 Major Results*. Available at http://nces.ed.gov/nationsreportcard/reading/results2003 and http://nces.ed.gov/nationsreportcard/mathematics/results2003.

[12] U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2002*, Table 2. Available at http://nces.ed.gov/pubs2003/digest02/tables/dt002.asp.

Performance Details

How the Department Reports Performance Results

Performance results are discussed throughout this report. Department-wide strategic performance measures are discussed at a summary level in the executive summary, they are further amplified in the discussion of each strategic goal in the Performance Detail section, and they are fully amplified in appendix A. Each strategic goal discussion also reports the percentage of performance measures met by those programs that most directly support that goal. A full performance report for each program that had measures can be found at http://www.ed.gov/about/reports/annual/2003report/index.html.

The Department published Interim Adjustments to the Strategic Plan in March 2003, within our *FY 2004 Annual Plan*. These adjustments included some modifications of 2003 strategic measures and targets to better align our measures to our objectives and to adopt replacement measures where data were not available for prior measures. The Performance Details section of this report summarizes our results on our 2003 measures as revised by our Interim Adjustments to the Strategic Plan.

The Performance Details section also sets the national context for each of our goals and describes the accomplishments of our programs over the past year. This discussion is followed by our results on our strategic measures. Many of our strategic measures are in clusters—for example, reading scores on the National Assessment of Educational Progress (NAEP)—for all students and disaggregated by race, ethnicity, and income. To provide an overall picture of our progress without excessive detail in the Performance Details section, we roll such clusters up into a single score—green, yellow, or red, as explained below. The Performance Details section also includes our results for fiscal year (FY) 2002, as well as those available for FY 2003.

We report on every original 2003 strategic measure in appendix A and include available historic data. Appendix A includes for each measure the source, a discussion of data quality, related Web links, and additional information. For measures with pending data, an expected date is provided, and for measures for which we failed to meet the target, there is a discussion of cause and future plans.

Color Score Explanation

The following algorithm was used to calculate the composite score.

Each component measure was assigned a score:

3 points were assigned for met or exceeded the target.
2 points were assigned for made progress toward the target.
1 point was assigned for made no progress.

Points were summed and averaged.

Ⓖ An average score above 2.3 was scored green (**G**).

Y An average score between 1.67 and 2.3 (inclusive) was scored yellow (**Y**).

Ⓡ An average score below 1.67 was scored red (**R**).

P Clusters for which the majority of measures have *pending* data are designated "**P**" and will be reported in our FY 2004 Performance and Accountability Report.

NC Clusters for which the information was *not collected* and the measure will be discontinued are designated as "**NC**."

B The symbol "**B**" represents a year that a *baseline* was established.

/// The symbol "***///***" represents a year that the measure was not in effect.

Goals and Objectives

Goal One: Create a Culture of Achievement

1.1 Link federal education funding to accountability for results.
1.2 Increase flexibility and local control.
1.3 Increase information and options for parents.
1.4 Encourage the use of scientifically based methods within federal education programs.

Goal Two: Improve Student Achievement

2.1 Ensure that all students read on grade level by the third grade.
2.2 Improve mathematics and science achievement for all students.
2.3 Improve the performance of all high school students.
2.4 Improve teacher and principal quality.

Goal Three: Develop Safe Schools and Strong Character

3.1 Ensure that our nation's schools are safe and drug free and that students are free of alcohol, tobacco, and other drugs.
3.2 Promote strong character and citizenship among our nation's youth.

Goal Four: Transform Education into an Evidence-Based Field

4.1 Raise the quality of research funded or conducted by the Department.
4.2 Increase the relevance of our research in order to meet the needs of our customers.

Goal Five: Enhance the Quality of and Access to Postsecondary and Adult Education

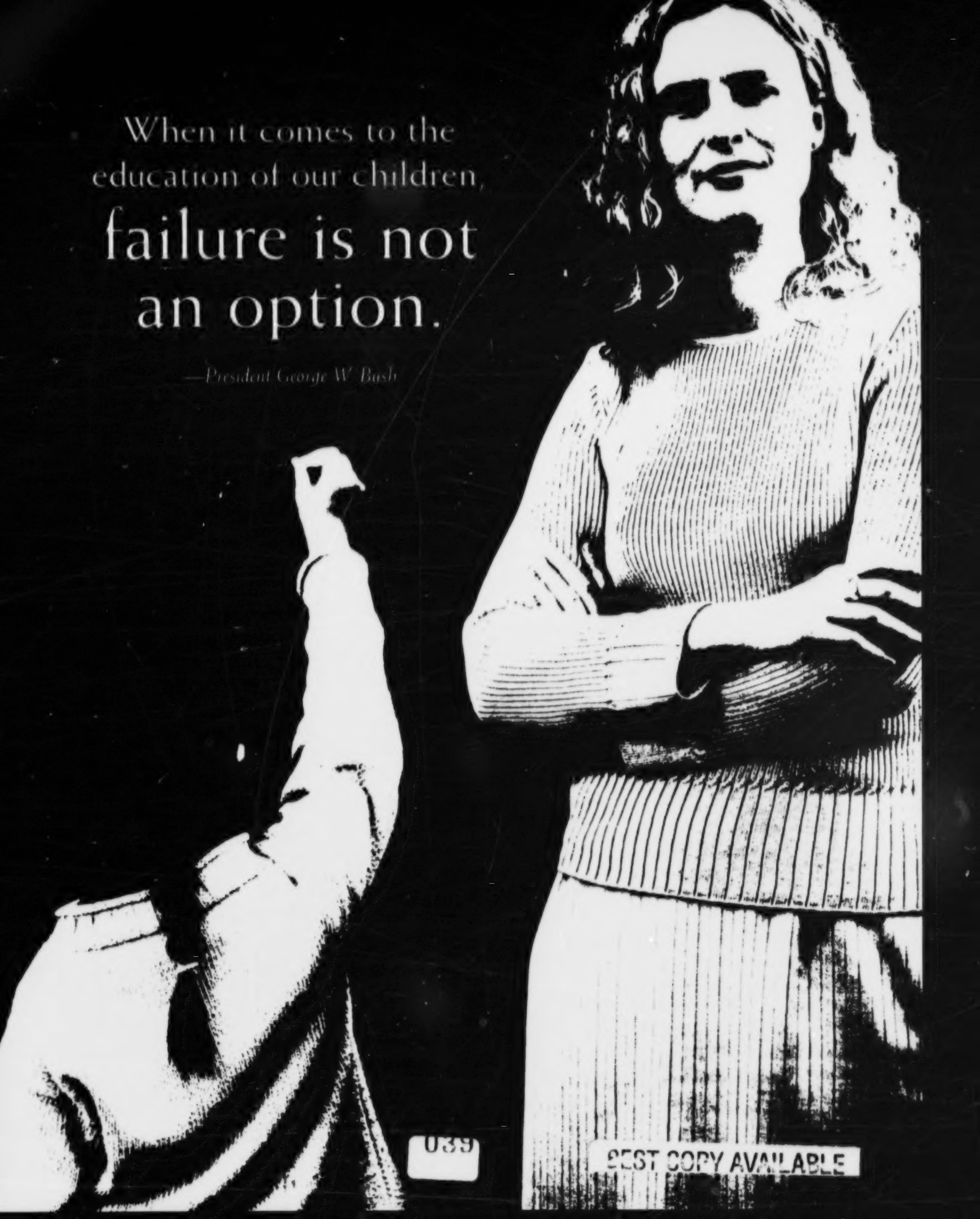
5.1 Reduce the gaps in college access and completion among student populations differing by race/ethnicity, socioeconomic status, and disability while increasing the educational attainment of all.
5.2 Strengthen accountability of postsecondary institutions.
5.3 Establish effective funding mechanisms for postsecondary education.
5.4 Strengthen Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities.
5.5 Enhance the literacy and employment skills of American adults.

Goal Six: Establish Management Excellence

6.1 Develop and maintain financial integrity and management and internal controls.
6.2 Improve the strategic management of the Department's human capital.
6.3 Manage information technology resources, using e-gov, to improve service for our customers and partners.
6.4 Modernize the Student Financial Assistance programs and reduce their high-risk status.
6.5 Achieve budget and performance integration to link funding decisions to results.
6.6 Leverage the contributions of faith-based and community organizations to increase the effectiveness of Department programs.
6.7 By becoming a high-performance, customer-focused organization, earn the President's Quality Award.

Performance Details

Goal 1: Create a Culture of Achievement



> When it comes to the education of our children, failure is not an option.
>
> —*President George W. Bush*

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Goal 1:

Create a Culture of Achievement

The four pillars of education reform that guided the Department's work in 2003 reflect the principles of No Child Left Behind (NCLB), the education legislation signed into law January 8, 2002. The pillars are

- Link federal education funding to accountability for results.
- Increase flexibility and local control.
- Increase information and options for parents.
- Encourage the use of scientifically based methods within federal education programs.

Over the years, the federal government has created hundreds of programs intended to address problems in education, and we have not always determined whether the programs produced results at the local school level. The first pillar of reform challenges that policy and establishes a new policy of targeting federal dollars to programs that show success in improving student achievement. Local schools are the first level of accountability for improving student achievement. States review local school report cards and determine when to reward a successful program and when to revise an unsuccessful one to make it more successful. The second pillar links accountability to the flexible use of federal program funds. In exchange for accountability for results, policy makers at the state and local levels have greater flexibility to allocate resources according to their particular system's needs. The third pillar provides parents with school report cards based on state accountability systems. Parents with children in schools that persistently need improvement have options to transfer them to another school or to receive supplemental educational services in the community. The fourth pillar focuses on a means for classroom success: implementation of scientifically based programs of instruction that have been proven to work. The four pillars work together to support the President's directive: no child left behind.

Link Federal Education Funding to Accountability for Results

State Accountability Systems. Each state that accepts federal education funds under NCLB is required to develop and implement a single, statewide accountability system to ensure that all local educational agencies (LEAs), public elementary schools, and public secondary schools make adequate yearly progress in moving all students to proficiency in mathematics and reading/language arts by the 2013–14 school year. Accountability plans for all 50 states, the District of Columbia, and Puerto Rico were approved by the Department in 2003. NCLB requires that states report annually on their progress in reaching the 2014 goal of academic proficiency for all students. To measure progress toward reaching the 2014 goal, states used 2001–02 school year data as the starting point. States set student achievement targets for 2003 as well as incremental targets for outlying years until the timeline's end in 2013–14 when all students are expected to reach proficiency. Data reporting states' success in meeting their 2003 targets for the school year that just ended are pending. School and district performance, in addition to being reported to the Department, will be publicly reported on district and state report cards. State report cards must be available to the public, be accessible in languages of major populations in the state, report student assessment results for all students and subgroups of students, and report graduation rates for secondary school students disaggregated by student subgroups.

Adequate yearly progress requirements provided for in state accountability systems were applied to SY 2002–03 student achievement results for all students and all subgroups, with resulting rewards and sanctions being implemented during the 2003–04 school year. As states implement their approved accountability plans this school year, the Department is taking an active role in providing guidance and technical assistance to states as needed. The Department is also monitoring states to ensure they are implementing their plans as approved.

Federal Program Accountability. During 2002 and 2003, the Office of Management and Budget (OMB) evaluated the effectiveness of a portion of federal education programs using the Program Assessment Rating Tool (PART). Evaluation results were used in preparing the fiscal year (FY) 2004 and FY 2005 budget submissions. These PART reviews also identified 2002 and 2003 program performance strengths and weaknesses and identified areas for improvement in performance. Programs that participated in PART reviews used the PART process to begin revising long-term and annual performance measures with an eye toward building a track record of results that merits continued or additional resources. Programs not reviewed by PART were encouraged to develop performance data from evaluations, Government Performance and Results Act (GPRA) related data, and program analyses to use for budget justifications, strategic planning, and management reform. In FY 2003, to expand the benefit of PART, the Department's program offices, Strategic Accountability Service, and Budget Service worked together to develop FY 2004 performance measures for 17 programs that had not previously had GPRA measures and substantially revised GPRA measures for an additional 19 programs.

In FY 2003, the Department conducted significant planning to incorporate performance measures into grant programs. To ensure that we share common expectations with our grantees for programs' results, the Department began to redesign discretionary grant application packages and review processes to include well-designed measures that are performance focused. The intent is to inform applicants before a grant competition about the particular program's performance goals and measures that will be used to assess grantee and program performance. Revised application packages emphasize both the ability and the intent of the applicant to provide objective, reliable performance data.

The National Reporting System (NRS) is the primary driver of accountability and program performance for the federal adult education grant program. The Department worked throughout FY 2003 to assist states in improving the reliability and utility of the performance data collected through this system. The Department published and disseminated technical assistance manuals that help states and local administrators implement effective strategies for increasing the quality of the performance data they collect and for using these data to improve adult education programs. Representatives from 48 states attended three regional training institutes that, using a "train the trainer" model, were designed to help states deliver training on these topics to local program administrators. The Department also began working with the Department of Labor to help it adapt the NRS for measuring learning gains among youth participants in its programs.

Planning for a Department Web-based system for tracking the outcomes of federal programs serving English Language Learner (ELL) students began in 2003 and is currently in the developmental stage. The system will include state-level baseline and updated data that track the enrollment status and progress of ELL students in academic achievement and English language proficiency.

The Department reformed strategies for monitoring accountability under the Individuals with Disabilities Education Act (IDEA) state grant programs that focus on improving educational results for students with disabilities. In 2003, the first year of implementation, all states completed a self-assessment of their performance and compliance and submitted an improvement plan to the Department. Additionally, we reviewed the effectiveness of states' systems for data collection, assessment, and monitoring.

The Department created and released several publications in 2002 and 2003 to improve the information available about grant implementation and results. These studies and reports include *No Child Left Behind: A Desktop Reference*, *State Education Indicators with a Focus on Title I: 1999-2000*, *The Same High Standards for Migrant Students: Holding Title I Schools Accountable*, and *State ESEA Title I Participation for 1999–2000: Final Summary*.

Increase Flexibility and Local Control

NCLB includes several flexibility provisions that allow states and LEAs options for using federal funds for programs that have the most positive impact on the students they serve.

Flexibility Authorities. Under the State Flexibility Authority (State-Flex) and the Local Flexibility Demonstration Program (Local-Flex), NCLB allows the Secretary to authorize limited flexibility for up to 7 eligible states and up to 80 LEAs in states without flexibility authority. This authorization allows states and districts to consolidate certain non-Title I federal formula grant program allocations in accordance with a pre-negotiated plan and in exchange for improving student achievement. States receiving State-Flex authority may authorize flexibility agreements in as many as 10 LEAs. In FY 2003, 1 state received State-Flex authority. The Local-Flex competition was not completed by the end of FY 2003.

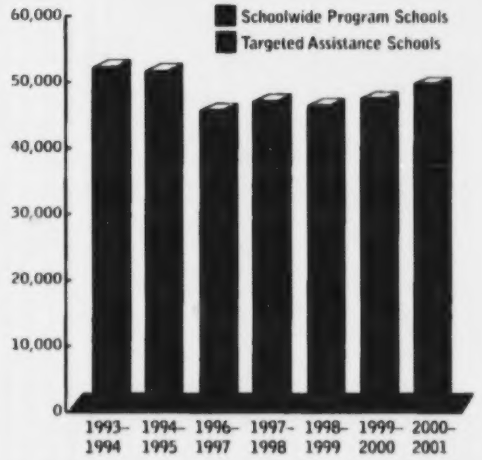
NCLB allows states and LEAs to transfer a portion of the federal program funds that they receive under certain federal formula programs to other federal formula grant programs. In 2003, 3 states notified the Department of their intention to use the authority provided in the State and Local Transferability Provisions.

The Rural Education Achievement Program (REAP) provides flexibility to rural districts that lack the personnel and resources to compete effectively for federal competitive grants and that receive grant allocations in amounts that are too small to be effective in meeting their intended purposes. Under REAP, NCLB allows a participating LEA to use federal funds allocated by formula under the eligible programs for any of a number of activities authorized under ESEA, including activities authorized under Title I, Part A.

The Education Flexibility Partnership Act (Ed-Flex) authorizes the Secretary to delegate to state educational agencies (SEAs) with strong accountability safeguards the authority to waive requirements of certain state-administered formula grant programs. With a delegated Ed-Flex authority, an SEA may waive certain federal requirements that may impede the ability of LEAs or schools in carrying out educational reforms and in raising the achievement levels of all students. In 2003, 10 states had Ed-Flex authority, the same number of states that held the authority in 2002.

Under Title I, Part A, requirements, schools that receive Title I, Part A, grant funds (depending on school poverty rate) are eligible to operate targeted assistance programs, where students are identified to receive services based on individual academic need, or schoolwide programs, which offer schools the opportunity to use Title I, Part A, funds in combination with other federal, state, and local funds to upgrade the entire educational program in a school. Eligible schools are increasingly using the schoolwide approach. To qualify to conduct a schoolwide program under NCLB provisions, at least 40 percent of a school's students must be from low-income families. Under previous legislation, the poverty threshold was 50 percent; NCLB lowered the school poverty threshold to allow more schools to combine their federal dollars to improve the quality of the entire school.

NUMBER OF TARGETED ASSISTANCE AND SCHOOLWIDE PROGRAM SCHOOLS

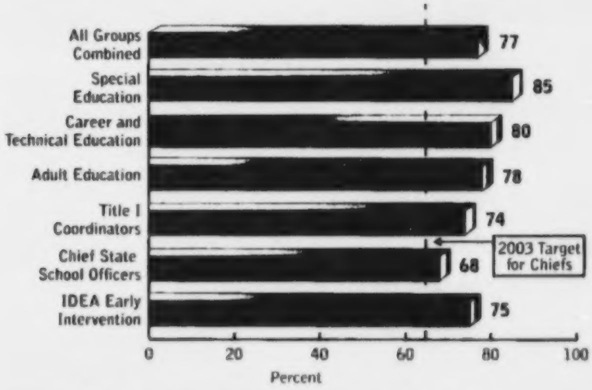


Source. Department of Education, Policy and Program Studies Service.
Note. State Performance Report information was not collected for the 1995–1996 school year.

Customer Responsiveness. The Department's attempts to increase flexibility are also demonstrated by our commitment to listening to our customers and meeting their needs.

The Department administered our first Customer Satisfaction Survey of Chief State School Officers in FY 2002 to collect data on how well we serve our customers in providing technical assistance, producing helpful products and services, and using the Web for communication. The FY 2002 survey results established a baseline 63 percent overall satisfaction rate for "all of ED's products and services." The Department exceeded the FY 2003 target of 65; 68 percent of the Chief State School Officers expressed overall satisfaction with the Department's services. The 2003 survey expanded our respondents to include representative customers of our Offices of Elementary and Secondary Education, Vocational and Adult Education, and Special Education and Rehabilitative Services. Among the five additional groups of state officials surveyed in the 2003 survey, satisfaction ranged from 74 percent to 85 percent, with 77 percent satisfaction in the aggregate.

OVERALL SATISFACTION OF STATE OFFICIALS WITH U.S. DEPARTMENT OF EDUCATION: 2003



Source. Department of Education, Survey on Satisfaction with the U.S. Department of Education 2003.

The Department surveys customers of the National Center for Education Statistics (NCES) on our publications, data files, and overall services using comprehensiveness, utility, and timeliness as markers. FY 2003 results are pending. (See http://www.nces.ed.gov/.)

In FY 2003, the Department resumed use of the American Customer Satisfaction Index (ACSI) to assess customer satisfaction with student financial assistance programs. The ACSI is a composite index based upon the overall satisfaction of customers and their comparisons of product or service to their expectations and to the ideal product or service. We surveyed and received baseline scores for the following: Free Application for Federal Student Aid on the Web (86); Direct Loan Servicing (77); School Common Origination and Disbursement (66); and Lender Reporting System (71). The Department's ACSI scores are generally good and are in range of the national benchmarks including the National ACSI (74), the federal government (70), and the banking industry (74). For more information about the Department's customer survey results, see appendix A, Performance Data Tables, page 199.

Streamlining Data Collection. The Department in FY 2003 continued efforts to reduce the burden on states as they apply for federal program funds and meet statutory reporting requirements. The Performance-Based Data Management Initiative (PBDMI) is consolidating many of the Department's current data collections. This will result in reduced data collection burden to the states, improved usefulness of information to all levels of government, and improved accuracy and will help meet implementation and accountability requirements for the Department's elementary and secondary programs of NCLB. Phase I of the project will culminate with the November 2003 electronic transfer of common data for school year (SY) 2002–03 by each state. These common data elements represent the information requirements of federal K–12 formula grant programs, plus statistical reporting and civil rights data. To reach the state submission stage and to prepare for Phase II, PBDMI undertook a range of activities in FY 2003. The Department with PBDMI's leadership:

- Determined information requirements of 20 K–12 formula grant programs, including those in NCLB, special education, and vocational education plus surveys by the NCES and the Office for Civil Rights.
- Conducted state site visits to document and analyze the individual data administration and information system capacities of each SEA.
- Developed a model for a shared data repository to receive the first data submission by the states of PBDMI data elements and subsequently built a shared database to receive the state-submitted PBDMI data in November 2003.
- Assessed reports on elementary and secondary education expenditures to shape the content of Phase II PBDMI data elements describing federal program funding at the state, district, and school levels.
- Aligned data definition standards with software-industry standards under development by the Schools Interoperability Framework.

Increase Information and Options for Parents

NCLB acknowledges the critical role that parents play in the education of their children and enhances that role by giving parents more information about the schools their children attend and more choices in the way their children are educated. During FY 2003, the Department pursued implementation of those elements of the Act through the Secretary's creation of a new Office of Innovation and Improvement, one of whose principal missions is to carry out activities that enhance parental choice and information. This office administers the Department's major educational choice and information programs, such as Charter Schools, Magnet Schools, Voluntary Public School Choice, and the Credit Enhancement for Charter School Facilities program; shares with the Office of Elementary and Secondary Education the responsibility for

implementation of the Title I, Part A, choice and supplemental educational requirements; and houses the staffs that serve as liaison with the private school community and administer the statutes protecting the privacy of student records. Establishment of this office began a new era in federal commitment to strengthening educational choice and provision of information to parents.

The Department's accomplishments relevant to the choice and parental information objectives of NCLB included the following:

- Issuing nonregulatory guidance that clarifies the choice and supplemental education services provisions of Title I, Part A; conducting outreach activities to explain those requirements to diverse audiences; and issuing guidance for the Charter Schools program and on the implementation of Title I, Part A, programs in charter schools.
- Initiating preparation of a new series of publications that will illustrate "best practices" in choice and supplemental services and in operating charter schools and magnet schools.
- Proposing, as part of the President's FY 2004 budget request, establishment of a Choice Incentive Fund to test and develop solid evidence on the effectiveness of programs that offer students a variety of public and private school choices and working with Congress on enactment of such a program for the District of Columbia.

Traditionally, education resources, expertise, and courses have been limited to the geographic area in which a student resides; now, Web-based curricula, changing class formats, and distance education offer tremendous flexibility, choices, and benefits to both students and teachers. The Department co-hosted the Virtual Schools Forum, which helped shape the national virtual school agenda in 2003 by bringing together key stakeholders to identify specific challenges, policy issues, and regulatory obstacles facing virtual education.

The Department informed English language learners' parents about their children's education options by producing and distributing documents that outline the rights of parents under NCLB. The documents are available in 14 languages.

The Department worked with institutions of higher education, community leaders, and English Language Acquisition (Title III) state coordinators to form the National Title III Advisory Team on Parental Involvement. The team's agenda is to enhance and expand the distribution of resources on English language learning to promote parental involvement in children's education.

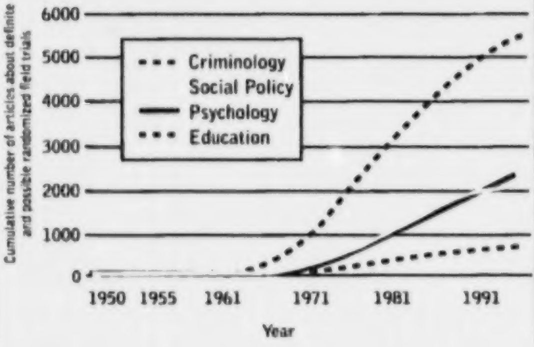
The Department's Parent Training and Information Centers provided significant information and training to children with disabilities and their parents who may have been unaware of resources that are available to them as parents of a child with a disability.

Encourage the Use of Scientifically Based Methods within Federal Education Programs

In 2003, the Department worked to implement the NCLB research-based initiative and to effect the shift of public education to a scientifically based research system. The Department has four goals for implementing this initiative: to provide the tools, information, research, and training to support the development of evidence-based education; to facilitate the practice of evidence-based education becoming routine; to continually improve education across the nation; and to eliminate wide variation in performance across schools and classrooms. (See http://www.ed.gov/nclb/methods/whatworks/eb/edlite-index.html.) The Institute of Education Sciences, the research arm of the Department renamed and reauthorized in 2002, assumed much of the responsibility for the research-based initiative in 2003; its accomplishments are detailed in Goal 4 beginning on page 75.

EDUCATION RESEARCH LAGS BEHIND OTHER FIELDS

While the total number of articles about randomized field trials in other areas of social science research has steadily grown, the number in education research has trailed behind.



Source. Robert Boruch, Dorothy de Moya, and Brooke Snyder, 2001

Reading First, which provides formula grants to states, implements NCLB's focus on using evidence-based instructional practices. NCLB requires that states applying for Reading First funds evaluate local education applications for subgrants with a rubric based on the key reading research findings provided by the Department. Reading First programs funded through the state grants and the subsequent local subgrants met NCLB requirements that early reading instruction provided through these programs use research-based strategies that have been proven effective. Reading First applications from 53 states and jurisdictions have been approved.

The Department drafted a "what works" guide to provide information on promising strategies for teaching ELL and professional development practices for teachers of ELL students. The Web-based guide features the findings of two research initiatives, the Development of English Literacy in Spanish-Speaking Children and the National Literacy Panel on English Language Learners, and includes the results of several studies focused on ELL literacy for special education students who are also English language learners. (See http://www.ncela.gwu.edu/.)

The Department recompeted the grant award for the National Clearinghouse for English Language Acquisition and Language Instruction Educational Programs to reflect the information dissemination requirements of NCLB. The clearinghouse highlights information on second language learning through its weekly newsletter subscribed to by 4,000 educators and researchers of English language learners.

The clearinghouse also offers a Web-based database of research on ELL and on professional development for teachers of ELL students. The Web site (www.ncela.gwu.edu) attracts over 1 million hits per month.

Performance Measure Summary

The Department's 2003 Annual Plan set targets related to four objectives for Goal 1:

- Link federal education funding to accountability for results.
- Increase flexibility and local control.
- Increase information and options for parents.
- Encourage the use of scientifically based methods within federal education programs.

The following tables report our results for each objective; full information is provided in appendix A.

Objective 1.1 **Link Federal Funding to Accountability**

Measures	FY 2003	FY 2002
State Accountability Systems	G	NC
Federal Program Accountability	P	Y

See page 30 for the color score explanation.

State Accountability Systems. NCLB required each state applying for federal funds to submit a single, statewide plan for an accountability system that by SY 2013–14 would effectively ensure that all public school students demonstrate proficiency in both reading/language arts and mathematics. Each state, the District of Columbia, and Puerto Rico submitted an accountability plan that was approved by the Department. We exceeded our 2003 target of 40 percent of states. State accountability plans are online at http://www.ed.gov/admins/lead/account/stateplans03/index.html. States are currently implementing the accountability systems represented in their plans.

Federal Program Accountability. In FY 2003, the Department of Education and OMB completed PART analyses on 15 programs to inform the FY 2005 President's Budget. Four programs analyzed last year were reviewed again this year. The total number of programs with PART assessments is now 33, representing the majority of the Department's annual budget authority. At the time of the FY 2002 PART reviews, the Department had sufficient performance information to demonstrate the effectiveness of only 18 percent of the programs that underwent PART reviews. Because effectiveness was demonstrated for the multibillion-dollar Pell Grant program, however, 46 percent of reviewed program dollars are associated with programs that demonstrated effectiveness. At this time, data are pending for the percentage of programs and associated dollars with demonstrated effectiveness in FY 2003. A potential challenge to meeting the Department's FY 2003 program effectiveness targets is that many programs had no available performance information at the time of their FY 2003 PART reviews. NCLB made significant changes to most of the elementary and secondary education programs. FY 2002 was the first year of implementation of the new programs and new strategies for state formula grants. Local programs receiving assistance from states have not completed their first year of operations under NCLB. Major improvements in the collection of performance information will become evident over the next two years as data on the first year of full implementation of NCLB become available. Additionally, the Department should have more information on the performance of elementary and secondary education programs when the Performance-Based Data Management Initiative is fully implemented March 2005. That system will collect nationally comparable student and school characteristic information and outcome data from states and districts.

Objective 1.2 Flexibility and Local Control

Measures	FY 2003	FY 2002
Local and State Flexibility	P	NC
Data Collection Burden	R	G
Customer Service	G	B

See page 30 for the color score explanation.

Local and State Flexibility. In exchange for the state and local school district accountability requirements of NCLB, the Act provides greater flexibility to states and local school systems in administering their education systems. The NCLB programs that afford this flexibility are State-Flex, Local-Flex, State and Local Transferability provisions, and REAP. First-year data on the percentage of school districts using Transferability or Rural Flexibility are pending and will be available April 2004. These data will set the baseline for this measure.

Ed-Flex, a 1994 Improving America's Schools demonstration program, also provides state flexibility. The Department did not meet the target of 20 states approved for Ed-Flex. We did not receive new Ed-Flex applications during FY 2003. States have not demonstrated a strong interest in the flexibility provisions offered under the Ed-Flex authority. We are focusing our flexibility efforts on the flexibility provisions of NCLB and have discontinued the Ed-Flex measure effective FY 2004.

Data Collection Burden. The Department's initial estimates of FY 2003 burden hours for program data collections increased rather than decreased from FY 2002 estimates with the consequence that we did not meet our target. OMB will provide revised estimates for FY 2003, which will replace the Department's estimate of 39.06 million hours. At this time, OMB estimates are pending.

The Department reduced the burden hours for FY 2003 collections overall when compared to FY 2002 collection requirements and regulations. However, the FY 2003 burden-hour figure of 39.06 million includes 1.01 million hours that resulted from data collections required for new NCLB programs and from an increased number of loans and grant applicants. The Department anticipates that the number of loan and grant applicants will continue to increase in succeeding years, causing a continued increase in burden hours. We plan to revise our targets for FY 2004 and FY 2005 to reflect the changing reality of program data collections.

Customer Service. In 2002, the Department surveyed the Chief State School Officers on our customer service, technical assistance, Web use, and documentation. With the data we collected in 2002, we set a baseline of 63 percent overall satisfaction among our customers and a FY 2003 target of 65 percent satisfaction. The Department exceeded the target for FY 2003; 68 percent of the Chief State School Officers expressed overall satisfaction with the Department's services.

During the 2002 survey, some Chief State School Officers suggested that the survey include additional state officials so the survey would provide a more complete picture of states' satisfaction with the Department. In response to the suggestion, five groups were added to the survey: Title I Coordinators, Adult Education State Directors, Career and Technical State Directors, State Program Directors of Special Education, and IDEA Early Intervention Coordinators. In general, the combined statistics across all six groups provide the most comprehensive picture of satisfaction with the Department and therefore should be considered the best measure of satisfaction. However, change over time is best examined by using equivalent populations for both time periods; therefore, only the Chief State School Officers' statistic was used in determining whether we met our target. Among the five other groups of state officials surveyed in the 2003 survey, satisfaction ranged from 74 percent to 85 percent, with 77 percent satisfaction in the aggregate.

Objective 1.3 **Information and Options for Parents**

Measures	FY 2003	FY 2002
Parental Information	NC	NC
Parental Choice	P	R
Supplemental Educational Services	P	///

See page 30 for the color score explanation.

Parental Information. A central principle of NCLB is the commitment to increased information for parents of the options available in educating their children. One of the measures we use to determine success in informing parents of their options is the percentage of parents who report having the information they need to determine the effectiveness of their child's school. Data collection for this measure was to begin in FY 2002. The Department did not develop a measurement tool for this measure and does not have data for FY 2002 or FY 2003. The Department has been unable to find an appropriate national parent survey that could be used to collect this information efficiently and without great cost. The Department plans to discontinue this measure effective FY 2005.

Parental Choice. NCES, in the Before- and After-School Survey, interviewed parents about choices they made in regard to their children's education. The Department set as a target that 19 percent of students in grades K–12 who are attending a school (public or private) will be doing so because their parents have chosen that school. Data for 2003 are pending and will be available in 2004.

The Department established a second measure for whether parents are exercising choice in their children's schooling: we collected data on the number of children attending public charter schools. The Department set 828,000 as the FY 2003 target for charter school enrollment. We made progress but did not meet the 2003 target.

Although the number of students enrolled in charter schools continued to increase in FY 2003, the increases were not as dramatic as in the earlier years when, for example, we reported that the 1999 figure of 252,000 rose to 478,000 students enrolled in charter schools in 2000. What appears to be a slowing in the rapid increase of charter school enrollment can be accounted for partially by the fact that the trend in charter school enrollment depends on state legislatures, which have the authority to authorize the creation of charter schools and determine whether charter schools are to be limited in number. The creation of new charter schools also depends on the availability of adequate facilities for housing the new school. Both of these phenomena have restricted the increase in charter school enrollment counts.

The Department will continue to measure student enrollment in charter schools as a measure of parents exercising choice in their children's education. We will also assist states in furthering their charter school efforts by providing Department staff testimony to state legislatures and by inviting state legislators to attend the Department's Annual Charter School Conference. In addition, the President's 2004 budget request included a substantial increase in funds for the Credit Enhancement for Charter Schools Facilities Program.

Supplemental Educational Services. ESEA Title I, Part A, as reauthorized in NCLB provides children from low-income families the opportunity to obtain supplemental services if they attend a school that is in its second year of "school improvement" status or that is undergoing corrective action in restructuring. To measure whether eligible students are accessing these services, the Department collected data on the percentage of eligible children using supplemental educational services under the provisions of Title I, Part A. Data for 2003 are pending and will be available April 2004.

Objective 1.4

Use of Scientifically Based Research

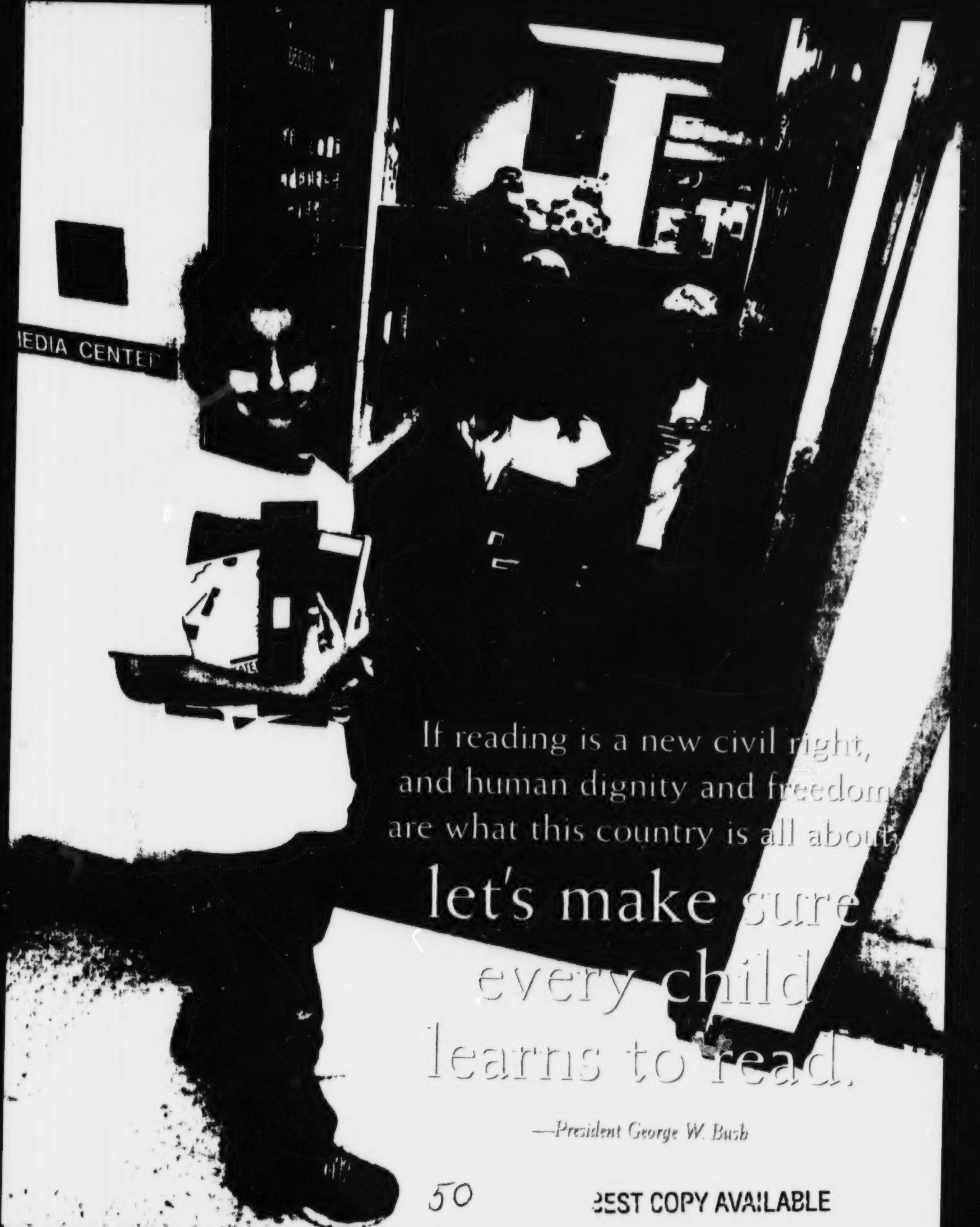
Measure	FY 2003	FY 2002
What Works Clearinghouse	G	NC

See page 30 for the color score explanation.

What Works. In 2002, the Department created the What Works Clearinghouse (WWC) to disseminate the results of research projects and evaluations to educators and the public. The Department measures whether the education community avails itself of clearinghouse resources by tallying the number of visits to the WWC Web site. The automated Web software enables an accurate count of Web hits, exact items receiving the greatest number of hits, and time intervals of Web visits. The 2003 target for this measure was 1 million visits to the Web site; the Web site received 1,522,922 visits in 2003. We exceeded our target.

Performance Details

Goal 2: Improve Student Achievement



If reading is a new civil right,
and human dignity and freedom
are what this country is all about,
let's make sure
every child
learns to read.

—*President George W. Bush*

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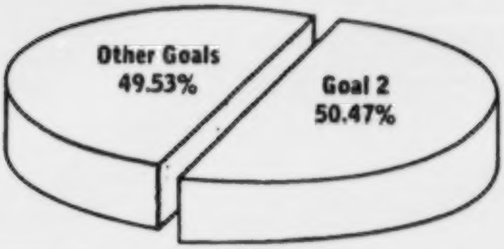
Goal 2:
Improve Student Achievement

No Child Left Behind (NCLB) was designed to improve achievement for all students and to narrow the achievement gap between rich and poor and white and minority students. To meet the goal of high achievement for all students, all students must have an equal opportunity to obtain a high-quality education. The Department's success in fulfilling the objectives that define Goal 2 will move the country's students toward high academic achievement.

Department Expenditures

APPROXIMATE FY 2003 EXPENDITURES THAT SUPPORTED GOAL 2

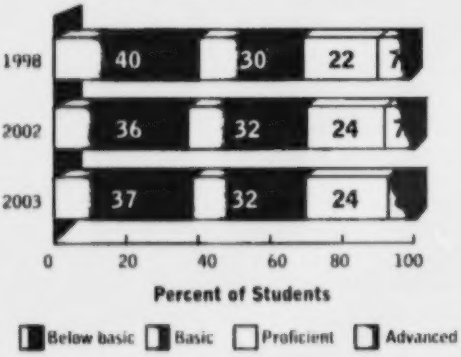


Student Achievement Gains

The National Assessment of Educational Progress (NAEP), the Nation's Report Card, assesses the education accomplishments of U.S. students in grades 4, 8, and 12 and monitors changes in those accomplishments. NAEP is the only nationally representative, continuing assessment of what America's students know and can do in various subject areas. Most recent report cards revealed the following:

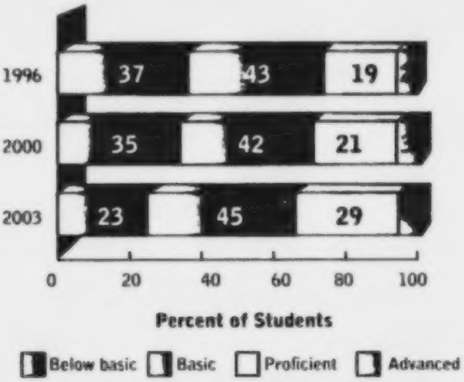
- **Fourth Grade.** Fourth-grade average reading scores were higher in 2003 than in 1994, 1998, and 2000 for white, black, and Hispanic students. Fourth-grade average mathematics scores were higher in 2003 than in the last assessment of 2000. Fourth-grade average writing scores in 2002 increased from 1998.

NAEP GRADE 4 READING ACHIEVEMENT LEVELS



Note. Percentages may not add to 100 because of rounding.
Source. National Assessment of Educational Progress.

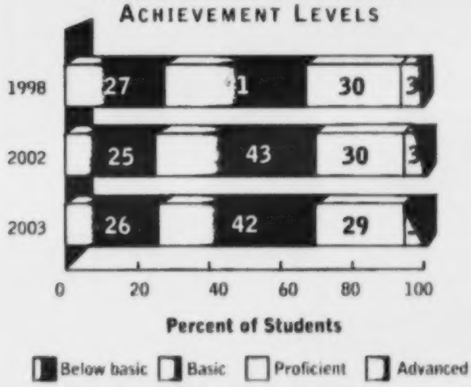
NAEP GRADE 4 MATHEMATICS ACHIEVEMENT LEVELS



Note. Percentages may not add to 100 because of rounding.
Source. National Assessment of Educational Progress.

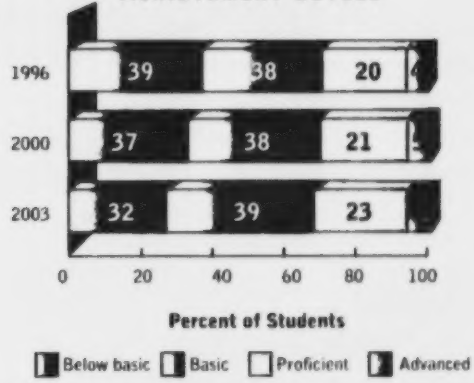
- **Eighth Grade.** Eighth-grade average reading scores were higher in 2003 than in 1992 for white, black, and Hispanic students. Eighth-grade average mathematics scores were higher in 2003 than in 2000, 1996 and 1990. Eighth-grade average writing scores in 2002 increased from 1998.

NAEP GRADE 8 READING ACHIEVEMENT LEVELS



Note. Percentages may not add to 100 because of rounding.
Source. National Assessment of Educational Progress.

NAEP GRADE 8 MATHEMATICS ACHIEVEMENT LEVELS

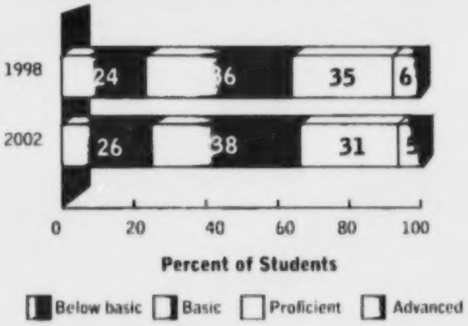


Note. Percentages may not add to 100 because of rounding.
Source. National Assessment of Educational Progress.

- **Twelfth Grade.** Twelfth-grade average reading scores were lower in 2002 than in 1992 and 1998 for white and black students. Twelfth-grade average mathematics scores in 2000 showed mixed results: twelfth graders have made progress over the decade as a whole, but their scores have come down from 304 to 301 since 1996. (There was no twelfth-grade NAEP reading or mathematics assessment in 2003.) Twelfth-grade average writing scores showed no significant change between 1998 and 2002.

See The Nation's Report Card at http://nces.ed.gov/nationsreportcard for details on 2000, 2002 and 2003 report cards.

NAEP GRADE 12 READING ACHIEVEMENT LEVELS



Note. Percentages may not add to 100 because of rounding.
Source. National Assessment of Educational Progress.

Improvements in fourth- and eighth-grade scores on recent NAEP reading, mathematics, and writing assessments are encouraging educators everywhere. Secretary Paige's optimism is reflected in his comments, "News about reading achievement for the nation's fourth-, eighth-, and twelfth-graders is cause for both celebration and concern. We can celebrate because the average fourth grader's reading score has improved over the last four years and the average eighth grader's reading score is higher than it was in 1992, when the current NAEP was first given." Paige also celebrated the fact that African American fourth graders and Hispanic fourth graders narrowed the achievement gap with their white counterparts. Children eligible for free and reduced-price lunch showed improvement in their scores as well.

Optimism about improvements in fourth- and eighth-grade reading scores was tempered by concerns about twelfth-grade reading results. Twenty-six percent of high school seniors scored below *Basic* on the NAEP reading assessment, meaning these students could not demonstrate an understanding of texts they read and could not make some interpretations of their contents. Concern for secondary-student reading skills crosses countries and cultures. When the Organization for Economic Cooperation and Development reported on its annual Program for International Student Assessment, it provided some insight into improving high school reading achievement. *Reading for Change: Performance and Engagement Across Countries* says that teenagers around the world who read a variety of printed materials, find reading enjoyable, and spend a significant amount of time doing so for pleasure are much better readers than those less engaged in such activities, regardless of their families' socioeconomic status. The results of the International Student Assessment reading test showed U.S. students scoring a few points above the mean scale score of 500 and about the same as children in Denmark, France, Norway, and Switzerland. Students in three other countries— Japan, South Korea, and the United Kingdom—outperformed U.S. students. According to the report, the differences in students' performance within countries— rather than the variations between them—were the most striking. In many countries, a large gap was evident between the best and worst readers. The United States has the widest gap between its best and worst readers. The report is available at http://www.pisa.oecd.org/.

Elementary School Reading. NCLB provides strong support for early reading instruction that is based on evidence of what works in the classroom. The Department requested and received fiscal year (FY) 2002 funding to implement Reading First, the largest early reading appropriation ever. By the end of FY 2003, 53 states and jurisdictions had submitted plans for research-based reading programs for kindergarten through third grade and, after peer-review and approval, received Reading First formula grants.

When states awarded Reading First subgrants to local districts and schools that had competed for these funds, many of the subgrant recipients faced the immediate task of adapting their reading programs to meet the research-based requirements of NCLB. The Department offered technical assistance to help states create an infrastructure to implement this new program. The Department also helped states build their knowledge base for the implementation of reading programs grounded in scientifically based research. We helped states select valid and reliable reading assessments to measure where students are in reading achievement and to monitor students' progress.

In five states, Reading First state-grant recipients participated in the first on-site monitoring of Reading First program activities during the 2002–03 school year. The remainder of the states and their subgrantees will be monitored on site during the 2003–04 school year. All states and local grant project sites are on an annual on-site monitoring calendar. The first annual performance report from Reading First grantees who made early subgrants, due late November 2003, will provide the opportunity to show results in reducing the number of children in grades 1–3 who are reading below grade level and in increasing the percentage of children in disaggregated groups who are reading at grade level.

Complementing the Reading First Program, Early Reading First discretionary grant funds, first awarded in FY 2002, were targeted to solve the problem created when young children enter kindergarten without the prerequisite language, cognitive, and early reading and writing skills they need to benefit fully from early formal reading instruction. Early Reading First conducted a pre-application competition that resulted in 607 pre-applications; 125 of the applicants were invited to submit full applications. The Department provided expert feedback to applicants through a live Webcast session with an archived version of the Webcast available at the Early Reading First Web site. All Early Reading First grant recipients are expected to fully implement project activities and services by January 2004. The first performance reports from Early Reading First participants are due October 2004.

Early Childhood Educator Professional Development (ECEPD) grants support projects that enhance school readiness of young children by improving the knowledge and skills of early childhood educators who work in communities that have high concentrations of children living in poverty. Projects were required to use early reading and cognitive development evidence-based practice for professional development activities and early childhood curricula. During 2001 and 2002, ECEPD had 18 projects in 14 states and served 2,335 educators and 18,582 children. FY 2003 grant awards brought the total to 24 projects in 18 states. The first cohort of grant recipients will report outcomes in FY 2004.

Through a $4.5 million grant, the Department supported the groundbreaking Reading First Teacher Preparation Network to ensure that reading instructors at historically black colleges and universities, Hispanic-serving institutions, and tribal colleges and universities are prepared to teach scientifically based reading instruction. This is a joint project among the Department, the National Institutes of Child Health and Human Development, the Texas Center for Reading and Language Arts, and the National Council for the Accreditation of Teacher Education.

Two important publications released in 2003 provided information on scientifically based reading instruction:

- *Using Research and Reason in Education*, published by the National Institute for Literacy through the Partnership for Reading on which the Department is an active, contributing member (http://www.nifl.gov/partnershipforreading or the National Institute for Literacy at edpubs@inet.ed.gov).
- *A Child Becomes a Reader: Proven Ideas for Parents from Research* includes two booklets offering advice for parents of children from birth to grade 3 on how to support reading development at home and how to recognize effective instruction in classrooms (http://www.nifl.gov/partnershipforreading).

Ready-To-Learn television, funded through a cooperative agreement between the Department and the Public Broadcasting Service, is a national effort to improve the school readiness of young children through the reach of public broadcasting. In 2003, Ready-To-Learn provided a full day of high-quality research and curriculum-based programming free to all U.S. households. Ready-To-Learn also provided extensive outreach services that included workshops for parents, childcare providers, and other early childhood professionals.

Two research studies on Ready-To-Learn programs showed that the *Dragon Tales* program and the *Between the Lions* program are promising educational supplements for children at high risk of reading failure. Research report results are at http://www.pbs.org/readytolearn/research. A five-year rigorous national evaluation of the Ready-To-Learn service is underway.

High School Achievement. We anticipate that, over time, the improvements in NAEP scores at the elementary and middle school levels will be reflected at the high school level as a result of improved early reading instruction. But difficult issues remain. Many educators believe that secondary schools are inherently more complex and more difficult to change than other components of the education system. NCLB provides an important framework for improving high schools. NCLB recognizes that today's high school students must master both basic and advanced academic skills.

The disappointing performance of 12th-grade students on the NAEP reading assessment is alarming. To assist states and local school districts in improving the reading skills of high school students, the Department is making a substantial investment in research that will develop new knowledge in adolescent literacy. Through the Partnership for Reading, the Department and the National Institute of Child Health and Human Development are funding scientific research to identify effective reading interventions for adolescents.

In October 2003, the Department organized a High School Leadership Summit to raise awareness of the state of American high schools and to promote a more promising future for high school students and graduates. The meeting centered around four themes: setting high expectations and accountability for results; creating choices and engaging students; fostering world-quality teaching and school leadership; and promoting smooth transitions into postsecondary education, training, and careers. At the summit, Secretary Paige introduced "Preparing America's Future," a leadership initiative for high schools that will bring together a broad group of stakeholders "to build the next generation of high schools." The approximately 700 participants in the summit included state teams of educators and administrators as well as a broad spectrum of education practitioners and policy makers. Information from the high school summit, as well as programs and legislation affecting high school, is available at www.ed.gov/about/offices/list/ovae/pi/hsinit/index.html.

During FY 2003, the Department supported several other important initiatives to promote higher levels of achievement by high school students. Several Department discretionary programs supported secondary education.

The College and Career Transitions Initiative funded 15 partnerships, each consisting of one or more high schools, one community or technical college, and two employers. The partnerships are responsible for creating and implementing model programs that ease secondary students' transitions to postsecondary education by ensuring that students have the necessary academic and technical skills for success.

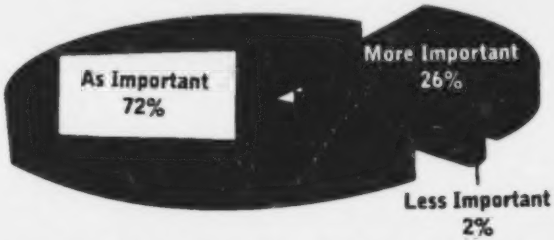
The State Scholars Initiative is designed to help high school students make a more successful transition to college. Twelve pilot states are working with the Center for State Scholars to increase the academic rigor of high school students' course work and graduation requirements, to articulate high school curricula with postsecondary curricula and workplace needs, and to seek the support of corporations and postsecondary institutions that can create incentives for more rigorous high school academic programs.

Mathematics and Science. The historical events of September 11 gave new urgency to the Department's mathematics and science agenda for all students. September 11 reminded the nation of the importance of developing citizens equipped with the mathematical and scientific knowledge that provide the United States access to new strategies and technologies that keep us safe and productive. The ability to inspire a new generation of scientists, mathematicians, engineers, and technicians starts in the nation's schools.

The Department launched a major five-year Mathematics and Science Initiative (MSI) on February 6, 2003. MSI intends to improve elementary and

STUDENT LITERACY IN SCIENCE

Q. As a result of recent terrorism events and continuing warnings, is it more important, as important, or less important than it was before 9/11 for today's students to be science literate?



Source. Bayer Facts of Science Education IX: Americans' Views on the Role of Science and Technology in U.S. National Defense, Bayer Corporation, 2003, http://www.bayerus.com/msms/news/pages/factsofscience/summary03j.html.

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secondary students' proficiency in mathematics and science. The Department formed a partnership with many public and private agencies interested in mathematics and science education.

MSI PARTNERS

- American Council on Education
- American Mathematical Society
- Department of Defense
- Department of Education
- Department of Energy
- Learning First Alliance
- National Aeronautics and Space Administration
- National Council of Teachers of Mathematics
- National Institutes of Health
- National Science Foundation
- National Science Teachers Association
- Office of Science and Technology Policy
- White House

There are many groups across the nation committed to improving mathematics and science education, and the Secretary's Initiative is designed to harness and coordinate them to improve mathematics and science learning.

MSI's goals are as follows:

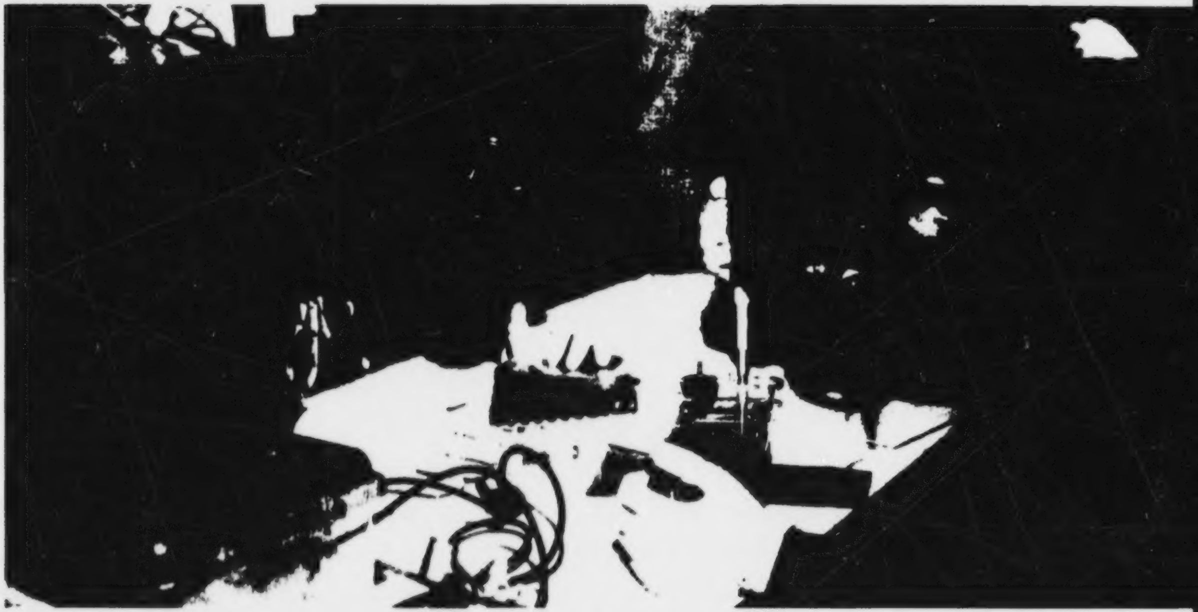
- Engage the public in recognizing the need for better mathematics and science education for every child in America's schools.
- Initiate a campaign to recruit, prepare, train, and retain teachers with strong backgrounds in mathematics and science.
- Develop a research base to improve knowledge of what boosts student learning in mathematics and science.

The launching of the national initiative at the MSI 2003 summit meeting by the Secretary of Education was followed by a series of well-attended meetings designed to solicit suggestions from the field on what should be included in an action plan designed to accomplish the goals of the initiative. Based on this input, action plans have been developed for a five-year initiative. A Webcast of the summit, a concept paper on the initiative, the written speeches given at the summit, 200 descriptions of mathematics and science activities sponsored by various participating groups, and the follow-up planning documents are available at www.ed.gov/inits/mathscience.

One of the first activities of MSI is establishing a subcommittee of the National Science and Technology Council with the charge of creating an inventory of the federal investments in research on mathematics and science learning to identify strengths and gaps in the portfolio.

The Mathematics and Science Partnership program (MSP) focuses on mathematics and science education programs authorized by NCLB. Funding increased from $12.5 million to $101 million in FY 2003, transforming the MSP from a discretionary grant program into a formula grant program for all states. The MSP purpose is to improve the content knowledge and skills of teachers with the purpose of improving student achievement in these subjects. The law requires that the partnerships include arts and science faculty and high-need school districts; other organizations may also be a part of the projects. A June 2003 two-day national meeting for state-level staff responsible for administering these funds provided technical assistance on the requirements of the legislation, particularly on evaluation designs required by the Department. As a follow-up to the national meeting, 13 states agreed to participate with the Department in a coordinated effort to encourage strong evaluation of the partnership efforts, including randomized controlled studies to learn from these efforts.

Coordination between the Department and the National Science Foundation (NSF) has increased in the past year. NSF contributed about $130 million to support a similar MSP effort, as well as research and technical-assistance projects. The two agencies worked closely together on these programs to ensure collaboration and support in the field. NSF supported the June meeting of the state MSP directors and worked



closely with the Department in mutual research and technical assistance programs. In addition to the collaboration on MSP, NSF and the Department created a team that meets regularly to facilitate collaboration and communication across programs and agencies, including the National Aeronautics and Space Administration, the National Institutes of Health, and NSF's Office of Science and Technology Policy. The result has been improved understanding of the portfolios of each agency and better ways to communicate with the constituents of each agency.

The Department provided funding to several other projects important to improving mathematics and science education. A group of mathematicians, mathematics educators, and teachers tackled the problem of identifying the content knowledge elementary and middle school pre-service teachers need as a part of their undergraduate preparation. The content knowledge framework informs mathematicians responsible for teaching pre-service teachers.

Planning for the redesign of the Christa McAulliffe program to focus more on the professional development needs of teachers in mathematics and science began in 2003. Five states are developing models for how to use these funds more effectively to honor teachers and improve their schools.

Science.gov, launched in FY 2003, is the gateway to reliable information about science and technology from across federal government organizations. From Science.gov, users can connect to over 2,000 government information resources about science, including technical reports, journal citations, databases, federal Web sites, and fact sheets. Science.gov provides a broad range of science resources to parents, teachers, and students as well as to professional scientists. The Department, 1 of 10 federal agencies participating in Science.gov, contributes National Library of Education staff time as well as funding to the project. FY 2003 activities have produced outstanding results evidenced in the current 27,000 Web sites that link to Science.gov to connect their customers to the best in science and technology information.

English Language Learners. The Nation's Report Card, NAEP, reports aggregated scores for all students and disaggregated scores for groups of students. By looking at the disaggregated scores for students who have limited proficiency in English, the Department is better able to understand and address their needs. It is the Department's goal to ensure that children who are limited English proficient attain English proficiency, develop high levels of academic attainment in English, and meet the same challenging state academic content and student academic achievement standards all children are expected to meet. To help address such a monumental charge, the Department hosted a national summit for over 1,600 participants where we provided technical assistance in implementing NCLB English language learner provisions. Key summit topics included developing English language proficiency standards, adequate yearly progress, assessment, data collection, and scientifically based research in student learning and professional development.

The Department also conducted three technical assistance meetings and four video teleconferences for state English language acquisition directors to provide guidance in establishing state English language proficiency standards, assessments, and annual measurable achievement objectives and in reporting baseline data in the consolidated application submission to the Department. We also sent teams to 35 states to present English Language Acquisition Guidance and provide technical assistance to State Assessment Teams on the inclusion of English language learners (ELL) in each state's accountability system.

The Department also sponsored and collaborated on basic research into acquiring literacy for ELL students and to identify promising instructional practices for ELL students. We disseminated information on findings of the following studies: *Literature Review of Early Literacy Instruction in Four Languages*, *Feasibility Study on the Transfer of Literacy Skills from Languages with Non-Roman Script to English*, and *Review of International Literacy on Reading Instruction of Hearing Impaired Children*. (The studies are available at www.ncela.gwu.edu.)

The Department, along with the National Institute of Child Health and Human Development, sponsored the National Literacy Panel on English Language Learners. The National Literacy Panel reviewed international studies using quality research-based standards and procedures; the results of the reviews provided "What Works" guidance to teachers and curricula designers who work to ensure that second-language learners attain literacy to grade level. The *Descriptive Study of Services to LEP Students and LEP Students with Disabilities*, also a 2003 product, updates the world of English language learners in the nation's public schools and is a resource for policy makers. Both efforts to inform ELL literacy are represented in the Web-based guide slated for publication in December 2003.

Closing the Gap. The Department is committed to eliminating the achievement gap between disadvantaged and minority children and their peers. In 2003, the Department pursued that end through the White House Initiative on Educational Excellence for Hispanic Americans.

PARTNERS IN EDUCATIONAL EXCELLENCE FOR HISPANIC AMERICANS
Girl Scouts of the USA
Hispanic Association of Colleges and Universities
Hispanic Association on Corporate Responsibility
IQ Solutions
League of United Latin American Citizens
MANA, A National Latina Organization
National Association of Hispanic Publications
National Council for Community and Education Partnerships
State Farm Insurance Companies
United States Army
U.S. Hispanic Chamber of Commerce
U.S. Hispanic Chamber of Commerce Foundation

Partnership participants committed to host education programs in six pilot sites: Miami, El Paso/Las Cruces, Tucson, Detroit, New York (the Bronx), and San Diego. Events involved town hall meetings; educational workshops for parents, students, educators, and business and community leaders; and seminars on student financial aid and scholarships. The Web site for the initiative is http://www.YesICan.gov/.

"Closing the Educational Achievement Gap" is a joint effort of ABC Radio Networks and the Department to inform the African American community about public

school choice programs and supplemental services such as tutoring provided for in NCLB. In announcing the 2003 radio campaign, Secretary Paige said, "We need to help African American parents understand how this historic new education law can specifically help them and their children." All 240 of ABC's Urban Advantage Network affiliates, which can be heard by 93 percent of African Americans every week, are airing detailed messages about bridging the achievement gap.

The McKinney-Vento Education for Homeless Children and Youth Program, reauthorized under NCLB, addresses school problems of homeless children: low enrollment, poor attendance, and lack of academic success. The 2003 preliminary guidance provided assistance to grantees in how to implement new NCLB requirements such as the following:

- Including homeless children in mainstream programs and not segregating them into a separate school program based on homelessness alone.
- Enrolling homeless students immediately even if the students are unable to produce their records.
- Ensuring that homeless children are provided transportation to and from the school they attended prior to their becoming homeless if transportation is requested.
- Designating a local liaison for homeless children and youths.

To access the guidance, visit http://www.ed.gov/programs/homeless/guidance.pdf.

Highly Qualified Teachers

One of the boldest commitments made by President Bush and Congress to improve student achievement was to ensure a highly qualified teacher in every classroom by the end of the 2005–06 school year. States have an important role to play by raising academic standards for teachers (and helping teachers meet them) and lowering barriers that keep many talented individuals out of the teaching profession.

There is consistent evidence that individual teachers contribute a great deal to student achievement. However, there is less information about the specific teacher attributes that lead to increased student achievement. In other words, how would you know an effective teacher if you saw one (other than by looking at the achievement of his or her students)? What traits or credentials are related to increases in student achievement? A fair reading of the most rigorous research shows the following:

- Teachers' general cognitive ability is the attribute studied in the literature that is most strongly correlated with effectiveness.
- There is also evidence that teacher experience (to a point) and content knowledge are linked to gains in student achievement.
- There is little compelling evidence that certification requirements, as currently structured in most states, are related to teacher effectiveness.[1]

The teacher quality requirements in NCLB are well aligned with the existing research and to the "high standards, low barriers" formulation. NCLB is explicit on how teachers can demonstrate their subject matter competence, reflecting research findings that teachers' content knowledge is important. The law also reflects

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[1] U.S. Department of Education, Office of Postsecondary Education, *Meeting the Highly Qualified Teachers Challenge: The Secretary's Second Annual Report on Teacher Quality*, Washington, D.C., 2003. The research results on teacher attributes that lead to increased student achievement as they are described in the text are based on an extensive list of research studies and reports. Citations for these research studies are included in the Bibliography of *Meeting the Highly Qualified Teachers Challenge.*

concern that state certification requirements around subject matter mastery, such as cut scores on certification exams, are not rigorous enough.

The law is silent about what it takes for someone to be a "fully certified" teacher, leaving that to states to define. NCLB gives the green light to states that want to lower barriers to teacher certification.

During FY 2003, the Department put the "high standards, low barriers" formulation into action to help states and local schools meet the highly qualified teachers challenge.

Helping Teachers Meet High Academic Standards. NCLB's Improving Teacher Quality State Grants, the single largest source of funds targeted to education leadership, provided nearly $2.85 billion in flexible formula grants in FY 2003 to improve the quality of teachers and principals by using research-based strategies. In return for these funds, districts must demonstrate annual progress in ensuring that all teachers of core academic subjects are highly qualified. The Department issued guidance in December 2002 that strongly encouraged states to be creative and results oriented with this funding.

Early data showed that states and local school districts were spending their NCLB teacher quality funds on conventional uses, such as decreasing class size (which will not solve teacher quality problems). In response, the Department re-issued the teacher quality guidance in September 2003 with an even stronger focus on strategies that are likely to boost teacher quality.

The Department also announced the creation of the Teacher Assistance Corps (TAC) task force, comprised of practitioners and representatives from state educational agencies and higher education. TAC is charged with providing voluntary support to states as they carry out the highly qualified teacher provisions of NCLB and as they make decisions regarding how to spend their teacher-quality grant dollars. Pilot TAC teams visited Oregon, Tennessee, and Illinois in September 2003; this project moves into full implementation in FY 2004.

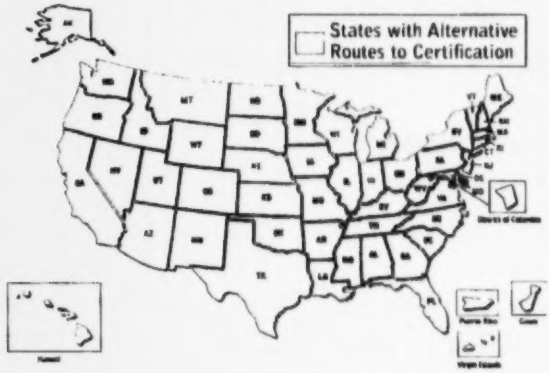
The Teacher Quality Enhancement Grants program, authorized by the Higher Education Act, consists of Partnership Grants for Improving Teacher Education, State Grants, and Teacher Recruitment Grants. In particular, the State Grant programs implement reforms that hold postsecondary institutions accountable for raising academic standards for teachers.

In FY 2003, the Teacher Quality Program established a system to track scholarship recipients who default on their service obligation to teach in high-need schools. As a result, 71 defaulting students have been identified, accounting for $249,426 in scholarships. To date, $118,765 has either been collected or is in the process of being collected.

The Department also retooled many of its discretionary grant programs to strengthen their focus on high academic standards for teachers. For example, the Office of English Language Acquisition's National Professional Development Program encouraged grantees to develop plans for improving teacher-training curricula to better reflect research-based practices related to improving the achievement of English language learners.

Lowering Barriers to the Classroom. The Department supports lowering the barriers that keep talented people out of the classroom, especially through alternative certification programs. As of 2002, all but nine states and outlying areas had approved an alternative route to certification.

ALTERNATIVE ROUTES TO CERTIFICATION



Notes. Alternative routes are defined by state. Visit www.title2.org for more information on state alternative routes.
Source. Title II Data Collection–State Reports, 2002.

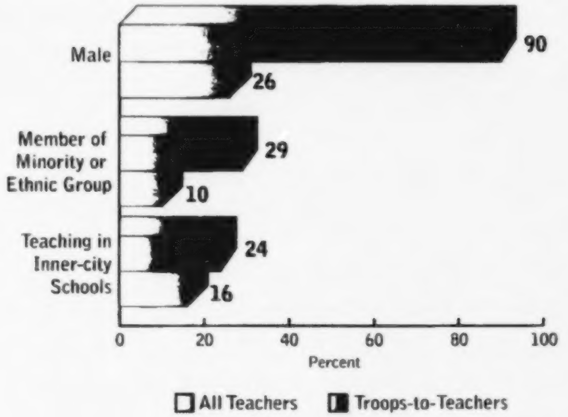
However, many of these programs remain nearly as burdensome as traditional routes to certification, and they vary greatly in quality. This year, the Department launched or expanded initiatives to address these concerns.

The Department made a five-year, $35 million grant from the Fund for the Improvement of Education to expand the offerings of the American Board for Certification of Teacher Excellence. The American Board is creating a rigorous assessment system for new teachers in both subject-matter content and professional teaching knowledge. States may choose to accept American Board certification as equivalent to traditional teacher certification so that individuals who pass the relevant sections of the American Board assessment would be considered "highly qualified," regardless of where they learned the important knowledge and skills that were tested. This initiative has the potential to lower barriers to the classroom.

The Department announced a $2.25 million grant to create the National Center for Alternative Certification, which will provide high-quality technical assistance to local and regional alternative certification programs around the country. A $2.5 million grant went to the New Teacher Project to work with large urban school systems to reform the way they recruit, hire, and place new teachers. This grant will allow the New Teacher Project to pilot new approaches in two urban districts and one rural state.

Finally, the Department strengthened its management of two discretionary grant programs—Transition to Teaching and Troops-to-Teachers—that support the recruitment, certification, and placement of nontraditional candidates into the classroom. For example, Troops-to-Teachers attracts a cohort that is 29 percent minority and 90 percent male; its teachers go into rural and urban schools at higher rates than traditionally certified teachers. Data from the first two cohorts of Troops-to-Teachers in 1994 and 1995 indicate that 70 percent have remained in teaching.

CHARACTERISTICS OF TROOPS-TO-TEACHERS COMPARED WITH THE OVERALL TEACHING FORCE



Source. Department of Education, Office of Postsecondary Education, *Meeting the Highly Qualified Teachers Challenge: The Secretary's Second Annual Report on Teacher Quality*, 2002.

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Performance Measure Summary

The Department's 2003 Annual Plan set targets related to four objectives for Goal 2:

- Ensure that all students read on grade level by the third grade.
- Improve mathematics and science achievement for all students.
- Improve the performance of all high school students.
- Improve teacher and principal quality.

The following tables report our results for each objective; full information is provided in appendix A.

Objective 2.1 **Reading Achievement**

Measures	FY 2003	FY 2002
State Third-Grade Reading Assessments	P	///
NAEP Fourth-Grade Reading Assessments	G	G

See page 30 for the color score explanation.

State Third-Grade Reading. Starting with school year (SY) 2002–03, each state is required to set the same annual reading achievement target for all students and for several student subgroups. States set these targets based on SY 2001–02 state assessments. SY 2002–03 was the first year for states to measure their progress against their reading achievement targets that they set in advance. Results of the spring 2003 tests will be available in December 2003.

NAEP Fourth-Grade Reading. Results of the 2003 NAEP reading assessments show that the Department met or exceeded nine of its twelve targets for public school fourth graders. The three targets the Department did not meet in FY 2003 were missed by one percentage point, which falls within the margin of error identified by NCES. In 2003, fourth-grade students nationwide scored an average 218 on the 500-point scale, a 5-point increase over the 2000 test. The lowest-performing fourth graders made a 10-point gain, the largest in performance among the disaggregated groups since 2000. Generally, scores for fourth-grade public school students showed no significant change from 2002 to 2003. The 2002 data, which were not available for the *FY 2002 Performance and Accountability Report*, are reported here and show that the Department met or exceeded all FY 2002 targets.

The Department, in partnership with the states and local schools, made early reading achievement the highest elementary school priority in FY 2003. Although the Department's early-reading efforts cannot be directly linked to rising NAEP scores, we are committed to complementing state and local school efforts with continued major support for early reading. Expected results of these efforts are a continued increase in NAEP scores.

Objective 2.2 Mathematics Achievement

Measures	FY 2003	FY 2002
State Eighth-Grade Mathematics Assessments	P	///
NAEP Eighth-Grade Mathematics Assessments	G	///

See page 30 for the color score explanation.

State Eighth-Grade Mathematics. 2003 was the first year for states to measure their progress against specific eighth-grade mathematics achievement targets that they set in advance. SY 2002–03 state mathematics assessments administered in the spring of 2003 will provide data for states to measure progress in reaching their targets. Results are pending and will be available in December 2003.

NAEP Eighth-Grade Mathematics. The Department's measure of student achievement in mathematics includes NAEP eighth-grade mathematics assessments as well as the previously reported state assessments.

The percentage of public school eighth-grade students at or above the *Proficient* level was 23 percent in 1996, 25 percent in 2000 and 27 percent in 2003. In 2003, eighth-grade students nationwide scored an average 278 on the 500-point scale, a 5-point increase over the 2000 test. The lowest-performing eighth graders made a 7-point gain, the largest in performance among the disaggregated groups since 2000.

Objective 2.3 High School Achievement

Measures	FY 2003	FY 2002
State High School Reading Assessments	P	///
State High School Mathematics Assessments	P	///
Advanced Placement Participation and Achievement	Y	Y
High School Completion	P	P

See page 30 for the color score explanation.

State High School Reading and Mathematics. FY 2003 was the first year for states to measure their progress against specific high school reading and mathematics achievement targets that they set in advance. Results for high school reading and mathematics assessments administered in spring 2003 will be used to measure state progress in meeting targets. The data are pending and will be available in December 2003.

Advanced Placement. The Department made progress but did not meet FY 2003 targets for increasing the number of all students and African American students who took at least one Advanced Placement (AP) examination. We met one component of our target, the target for Hispanic student participation in AP examinations, and made progress on the others.

The number of students who are participating in AP examinations continues to rise. As more students participate in AP classes and the advantages of participation are more widely understood by parents and students, we expect more students will not only

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take AP classes, but also take the optional, culminating AP examination. To encourage greater participation in the exams, the Department's Advanced Placement Incentives Program provides funds to states for the payment of AP test fees for low-income students.

Regarding AP examination achievement, the Department made progress toward our FY 2003 target of increasing the numbers of 12th-grade students who scored 3 or higher on the Calculus AP exam, but we did not meet our FY 2003 targets for science, American history, or English. Twelfth-grade students who took AP exams in science, American history, and English did not score a 3 or higher at the percentage level we had targeted. Because success on an AP exam demands more than the one year of rigorous AP course work in the discipline, the Department will continue to focus on activities that promote a rigorous high school curriculum throughout a secondary student's experience.

High School Completion. One of the many ways the Department measures student achievement is by collecting and reporting on the percentage of all 18–24-year-old students who have completed high school. FY 2002 and FY 2003 data for this measure are pending. The National Center for Education Statistics (NCES) uses Bureau of the Census data in calculating the 18–24-year-old high school dropout and completion rates. Because of a lag in the release of census data, the NCES report for FY 2002 will not be available until 2004, and the FY 2003 data will be available in 2005. High school completion rates rose slightly from the early 1970s to the late 1980s but have remained fairly constant during the 1990s.

Programs Supporting Goal 2

Program Name	Budget† FY 2003 $ in millions	Expenditures†† FY 2003 $ in millions	Program Performance Targets FY 2003 % Met	FY 2003 % Not Met	FY 2003 % No Data	FY 2002 % Met	FY 2002 % Not Met	FY 2002 % No Data
CRA: Training and Advisory Services	8	7	0	0	100	★		
ESEA: 21st Century Community Learning Centers	999	466	0	0	100	30	70	0
ESEA: Advanced Credentialing (NBPTS)	10	2	★					
ESEA: Advanced Placement Incentives	24	17	0	0	100	100	0	0
ESEA: Alaska Native Education Equity	31	17	◆			0	0	100
ESEA: Arts in Education (FIE)	35	24	◆					
ESEA: Charter Schools Grants	200	168	0	100	0	0	100	0
ESEA: Comprehensive School Reform	235	267	0	0	100	0	0	100
ESEA: Cooperative Education Exchange	12	10	★					
ESEA: Credit Enhancement for Charter School Facilities	26	9	///			/// (not funded)		
ESEA: Dropout Prevention Programs	12	8	★					
ESEA: Early Childhood Educator Professional Development	15	7	★			///		
ESEA: Early Reading First	75	6	///					
ESEA: Education for Native Hawaiians	31	29	◆					
ESEA: Educational Technology State Grants	697	352	0	0	100	///		
ESEA: Eisenhower National Clearinghouse for Math and Science Education	5	3	★			100	0	0
ESEA: English Language Acquisition: Competitive Grant Continuations	695	586	0	0	100	0	0	100
ESEA: English Language Acquisition: National Activities			100	0	0	///		
ESEA: English Language Acquisition: State Grants			0	0	100	///		
ESEA: Even Start	251	221	0	0	100	0	0	100
ESEA: Foreign Language Assistance (FIE)	17	9	★					
ESEA: Fund for the Improvement of Education Programs of National Significance	326	241	◆			67	33	0
ESEA: Impact Aid—Basic Support Payments	1,033	973	50	50	0	0	100	0
ESEA: Impact Aid—Payments for Children with Disabilities	51	46						
ESEA: Impact Aid—Construction	46	20	0	100	0	0	100	0
ESEA: Impact Aid—Facilities Maintenance	8	6	★					
ESEA: Impact Aid—Payments for Federal Property	61	50	◆					
ESEA: Improving Teacher Quality State Grants	2,932	2,441	0	0	100	///		
ESEA: Indian Education—Grants to Local Educational Agencies	103	97	0	0	100	0	33	67
ESEA: Indian Education—Special Programs for Indian Children	20	17	★					
ESEA: Javits Gifted and Talented Education (FIE)	12	7	★					
ESEA: Literacy Through School Libraries	13	9	★			///		
ESEA: Magnet Schools Assistance	111	109	0	0	100	◆		
ESEA: Mathematics and Science Partnerships	101	1	/// (program reconfigured)			★		
ESEA: Migrant Education	400	389	0	0	100	0	0	100
ESEA: National Writing Project	17	14	★					
ESEA: Neglected and Delinquent State Agency Program	49	43	0	0	100	◆		
ESEA: Parental Assistance Information Centers (FIE)	44	30	0	0	100	◆		
ESEA: Reading First State Grants	996	203	0	0	100	///		
ESEA: Reading Is Fundamental/Inexpensive Book Distribution(FIE)	26	10	0	0	100	◆		

† Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

†† Expenditures occur when recipients draw down funds to cover actual outlays. FY 2003 expenditures may include funds from prior years' appropriations.

★ Denotes programs with funding below $20 million without targets—the Department prioritized setting targets for programs over $20 million.

◆ Denotes programs over $20 million without targets.

/// Denotes programs not yet implemented. (Programs are often implemented near the end of the first year they are funded.)

CRA = Civil Rights Act
ESEA = Elementary and Secondary Education Act
NBPTS = National Board for Professional Teaching Standards
FIE = Fund for the Improvement of Education

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Programs Supporting Goal 2 (con't)

Program Name	Budget†	Expenditures††	Program Performance Targets					
	FY 2003 $ in millions	FY 2003 $ in millions	FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Ready to Teach (FIE)	15	9	★					
ESEA: Ready-to-Learn Television	23	21	0	0	100		◆	
ESEA: Rural Education Program	169	127	◆					
ESEA: School Leadership	13	24	★					
ESEA: Smaller Learning Communities (FIE)	163	46	0	0	100		◆	
ESEA: Star Schools Program (FIE)	28	36	0	100	0	100	0	0
ESEA: State Assessments	388	147	0	0	100		///	
ESEA: State Grants for Innovative Programs	384	371	0	0	100		◆	
ESEA: Teaching of Traditional American History	101	0	0	0	100		◆	
ESEA: Title I Grants to Local Educational Agencies	11,694	10,024	0	0	100	0	0	100
ESEA: Transition to Teaching	43	21	0	0	100		◆	
ESEA: Troops-to-Teachers	29	18	0	0	100		★	
ESEA: Voluntary Public School Choice	27	11	0	0	100		◆	
ESEA: Women's Educational Equity Assistance (FIE)	3	2	★					
ESRA: National Assessment	98	113	0	0	100	◆ (off year for collection)		
ESRA: National Assessment Governing Board	5	3	★					
ESRA: Regional Educational Laboratories	69	64	100	0	0	100	0	0
ESRA: Comprehensive Regional Assistance Centers Program	28	24	67	33	0	100	0	0
ESRA: Eisenhower Regional Mathematics & Science Education Consortia	15	14	0	0	100	29	14	57
ESRA: Regional Technology in Education Consortia	10	11	★					
HEA: High School Equivalency Program	24	22	0	0	100		◆	
HEA: Preparing Tomorrow's Teachers to Use Technology	63	84	0	0	100	20	80	0
HEA: State Grants for Incarcerated Youth Offenders	19	15	★					
HEA: Teacher Quality Enhancement	90	86	0	0	100		◆	
IDEA: Grants for Infants and Families	442	425	33	0	67	50	0	50
IDEA: Grants to States	8,888	7,365	0	0	100	14	57	29
IDEA: Parent Information Centers	28	25	0	0	100	0	0	100
IDEA: Personnel Preparation	97	81	0	0	100	0	0	100
IDEA: Preschool Grants	388	404	0	0	100	100	0	0
IDEA: State Improvement	52	39	0	0	100	0	0	100
IDEA: Technical Assistance and Dissemination	57	48	0	0	100	0	0	100
IDEA: Technology and Media Services	40	39	0	0	100	0	0	100
MVHAA: Education for Homeless Children and Youths	55	44	0	0	100	0	0	100
USC: American Printing House for the Blind	16	15	★					
VTEA: Occupational and Employment Information	10	8	★					
VTEA: Tech-Prep Demonstration	6	5	★					
VTEA: Vocational Education National Programs	18	13	★					
VTEA: Tech-Prep Education State Grants	108	111	0	0	100	0	71	29
VTEA: Vocational Education State Grants	1,201	1,223						
Total	**34,634**	**28,052**						

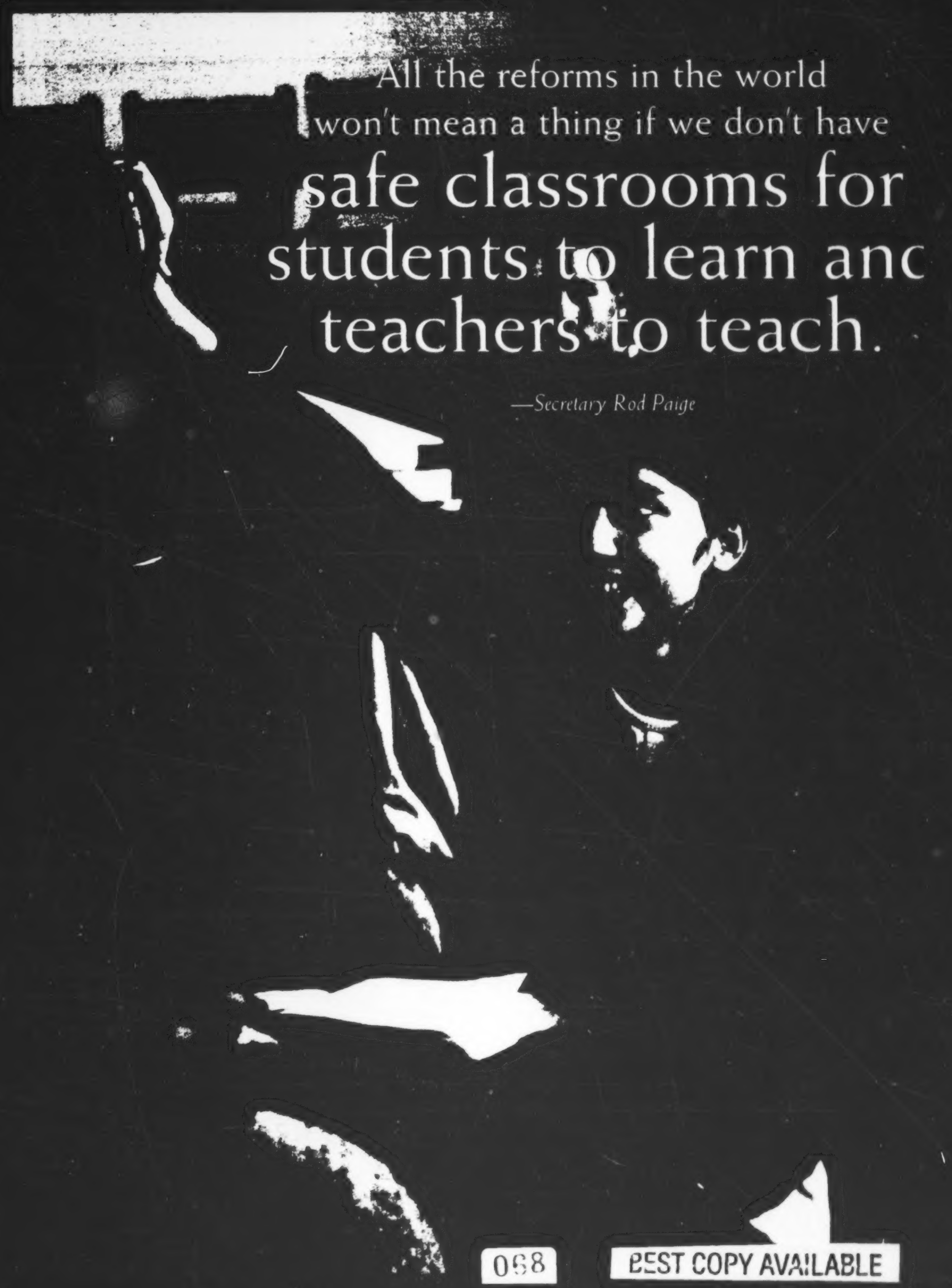
† Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.
†† Expenditures occur when recipients draw down funds to cover actual outlays. FY 2003 expenditures may include funds from prior years' appropriations.
★ Denotes programs with funding below $20 million without targets—the Department prioritized setting targets for programs over $20 million.
◆ Denotes programs over $20 million without targets.
/// Denotes programs not yet implemented. (Programs are often implemented near the end of the first year they are funded.)

ESEA = Elementary and Secondary Education Act
IDEA = Individuals with Disabilities Education Act
FIE = Fund for the Improvement of Education
MVHAA = McKinney-Vento Homeless Assistance Act
ESRA = Education Sciences Reform Act
USC = United States Code
HEA = Higher Education Act
VTEA = Vocational and Technical Education Act

For programs with performance measures, program performance reports are available on the Web at http://www.ed.gov/about/reports/annual/2003report/index.html. Appendix C contains a sample program performance report.

Performance Details

Goal 3: Develop Safe Schools and Strong Character



> All the reforms in the world won't mean a thing if we don't have safe classrooms for students to learn and teachers to teach.
>
> *—Secretary Rod Paige*

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Goal 3:

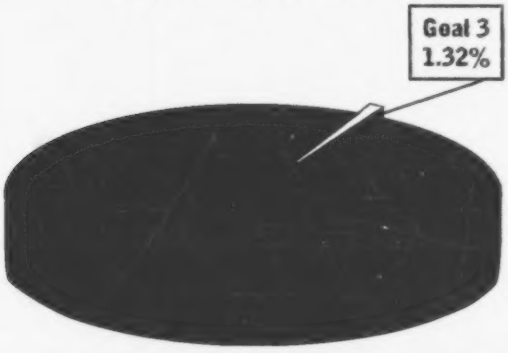
Develop Safe Schools and Strong Character

For most American students, schools are safe places where learning and social development are nurtured. As an important part of the community, schools have a tremendous impact on student character and civic awareness. However, for some unfortunate students, unsafe schools jeopardize healthy social and physical development. The safety of their learning environment may be compromised by unhealthy influences within the community or by unexpected crises. In addition to disrupting the learning environment, violence and substance abuse can create a climate of disrespect and irresponsibility, all of which can reduce student achievement.

Given the negative effects of unsafe learning environments on student learning, promoting safe and drug-free schools and strong student character is essential to the Department's effort to implement No Child Left Behind (NCLB). Secretary Paige stated, "Ensuring that all schools are safe, free of alcohol and drugs, and teach students good citizenship and character is essential if we are to ensure that no child is left behind." In fiscal year (FY) 2003, the Department partnered with community, law enforcement, health, and education officials to coordinate federal school safety investments and advocate exemplary policies and practices.

Department Expenditures

APPROXIMATE FY 2003 EXPENDITURES THAT SUPPORTED GOAL 3



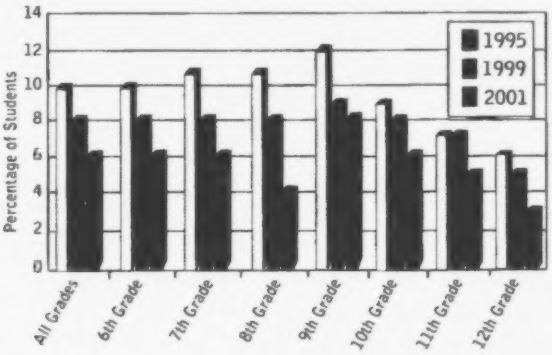
Ensuring That Our Nation's Schools Are Safe and Drug Free

To maintain a safe and drug-free learning environment, schools must be ready to deal with a wide range of disruptive events, such as natural disasters, school shootings, substance abuse, and major accidents. Crisis planning and preventative measures are two important tools parents, students, and school officials are using to keep schools safe.

Secretary Paige stated, "We know from our work with the U.S. Secret Service and from other research that the best way to deal with youth who are troubled is through the development of a comprehensive strategy that involves schools, mental health providers, and law enforcement." Many schools are creating or updating crisis plans and expanding plans to address emerging threats, whether they come from the community or foreign sources.

Crimes against youth, whether at school or away from school, have declined significantly during the last 10 years. For example, crimes against students at school declined from 144 per 1,000 students in 1992 to 72 per

STUDENTS AGES 12–18 WHO REPORTED NONFATAL CRIMINAL VICTIMIZATION AT SCHOOL DURING THE PREVIOUS SIX MONTHS



Source. U.S. Department of Justice, Bureau of Justice Statistics, School Crime Supplement to the National Crime Victimization Survey, January-June 1995, 1999, and 2001.

1,000 students in 2000,[2] and the percentage of students engaged in a physical fight declined from 16.2 percent in 1993 to 12.5 percent in 2001.[3]

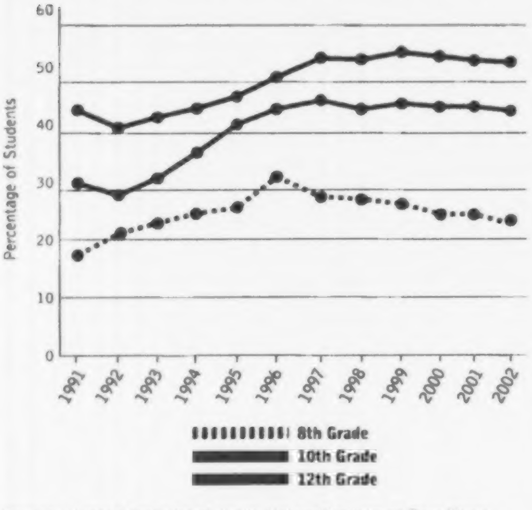
The news about youth drug use has not been as positive. After several years of reductions in youth drug-use rates in the late 1980s, use of illicit drugs by youth increased throughout the 1990s. That trend has been reversed since 2000, with surveys indicating modest reductions in drug use in the past few years.[4]

Despite these somewhat positive trends, too many American children still must learn in environments where drug use and violence are prevalent.

Recognizing the importance of safe and nurturing learning environments, Secretary Paige created the Office of Safe and Drug-Free Schools (OSDFS) in FY 2003. The office brings together programs from across the Department that are designed to help schools and communities provide services and programs that support students and help them make healthy, responsible, and productive choices. The programs administered by OSDFS provide the foundation for academic achievement that is the emphasis of NCLB.

TRENDS IN DRUG USE: GRADES 8, 10, AND 12

ANY ILLICIT DRUG USE IN THE LAST 12 MONTHS



Source. National Institutes of Health, National Institute on Drug Abuse, *Monitoring the Future: National Results on Adolescent Drug Use: Overview of Key Findings, 2002*, Table 1.

This restructuring allows the Department to provide a more comprehensive, coordinated response to the needs of schools and school districts. With its portfolio of 23 programs, research projects, and interagency collaborative efforts, OSDFS provides leadership on school safety, drug abuse prevention, character, and civic education. Highlights of some of these FY 2003 activities are detailed below.

Crisis Planning and Preparedness. A comprehensive emergency and crisis response plan for schools involves first responders and health and law enforcement officials, as well as school leaders, teachers, students, and their families. Crisis plans form the basis for drills and building awareness about emergency procedures. In FY 2003, the Department implemented three significant activities to help schools develop comprehensive plans to respond to a variety of potential emergencies.

In April 2003, the Department released a publication on crisis planning. *Practical Information for Schools and Communities: A Guide to Crisis Planning* combines information about best practices in the field with examples from school districts and communities across the country that have worked to prepare for a variety of emergency situations. This publication provides a framework to help local school districts develop applications for more than $38 million in grants to support the development of emergency management and crisis response plans. The Department awarded grants to more than 130 school districts in FY 2003 to improve their crisis response capacity.

In 2003, the Department and the American Red Cross collaborated on a pilot program to train teachers and students in first aid and emergency preparedness techniques. The collaboration yielded a standardized first aid and preparedness presentation designed to fit teachers' planning needs, both in terms of time and content. Local Red Cross chapters provided training and guidance to several hundred teachers in pilot districts, who trained students on first aid and preparedness. The results of the feedback surveys of teachers and students indicate that the pilot was successful.

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[2] U.S. Department of Education, National Center for Education Statistics. 2002. *Indicators of School Crime and Safety*, Table 2.2. Available at http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2003009.

[3] U.S. Department of Education, National Center for Education Statistics. 2002. *Indicators of School Crime and Safety*, Table 5.1. Available at http://nces.ed.gov/pubs2003/schoolcrime/5.asp?nav=1.

[4] National Institutes of Health, National Institute on Drug Abuse. *Monitoring the Future National Results on Adolescent Drug Use: Overview of Key Findings, 2002*, Table 2. Available at http://www.monitoringthefuture.org/pubs/monographs/overview2002.pdf.

The Department also partnered with the Department of Homeland Security to disseminate critical information on crisis planning and response. As a part of this effort, the Department launched a Web site to inform parents and school officials about practical guidelines and emergency response plans, http://www.ed.gov/admins/lead/safety/emergencyplan/index.html. The Web site complements the school crisis planning section of http://www.ready.gov, the linchpin of the Department of Homeland Security's multiyear Ready Campaign.

Responding to Crisis. Although frequently practiced comprehensive crisis response plans are a critically important part of a school's ability to respond effectively to an emergency, additional assistance and resources are often needed when a significant crisis occurs. In FY 2003, the Department provided assistance to some local school districts experiencing significant disruptions to their learning environments through Project School Emergency Response to Violence (SERV).

Project SERV provides immediate funding for local school districts that have experienced a traumatic event and need resources to respond to the event and reestablish a safe learning environment. After assessing immediate or long-term needs, local education officials make requests for Project SERV funds.

An example of the type of activity funded under Project SERV is an award earlier this year to New Orleans Public Schools. In New Orleans, Project SERV funds helped administrators at McDonogh Senior High School respond to a school shooting that killed one student and wounded three others. The ensuing grief and shock created an environment described by staff as "rife with fear and apprehension." Project SERV funds were used to increase security, hire counselors, and buy additional safety equipment.

Preventing Drug Use and Violence. Although the Department has made significant investments in helping schools respond to emergency situations, we continue to provide support to help schools, communities, and colleges and universities implement effective prevention strategies that can reduce the likelihood that crisis situations will occur. The Department implemented several important drug and violence prevention programs in FY 2003.

The Safe Schools/Healthy Students Initiative (SS/HS) supports comprehensive, integrated plans that address violence, drug abuse prevention, and healthy childhood development. Over the past five years, the initiative has awarded more than $733 million in grants to 166 school districts and communities to help implement comprehensive plans. The plans are made with health and law enforcement agencies and include those agencies in crisis response or intervention. SS/HS is a federal partnership among the U.S. Departments of Education, Health and Human Services, and Justice.

Grantees have documented that positive changes occurred as a result of SS/HS funding and technical assistance.

Grants to Prevent High-Risk Drinking or Violent Behavior Among College Students provide funds to enable grantees to develop or enhance, implement, and evaluate campus and/or community-based strategies to prevent or reduce high-risk drinking and violent behavior among college students. Through these strategies, grantees implement a comprehensive approach to prevent alcohol abuse or violent behavior among college students. These include developing and enforcing policy, coalition-building, and encouraging a safe and healthy learning and living environment. Eligible entities for this grant are institutions of higher education; nonprofit organizations, including faith-based organizations; and individuals.

The project at the University of North Carolina, Chapel Hill, supported a carefully developed and targeted program to reduce high-risk drinking among first-year students. The program was designed to ensure that students entering the university know or quickly learn that drinking among the university's students is typically moderate and that a substantial number of underage students abstain from using alcohol.

Option for Students in Dangerous Schools. To allow students trapped in dangerous schools the option of transferring to a safe school, the Department implemented the Persistently Dangerous Schools Provisions of NCLB. NCLB requires federally funded state school systems to establish and implement a statewide policy allowing students in persistently dangerous public schools the choice to attend a safe public school. This option, called the Unsafe School Choice Option (USCO), also allows students who become victims of a violent criminal offense at the school that they attend to transfer to another school. States are certifying in writing to the Secretary that policies are in compliance with Persistently Dangerous Schools provisions and that USCO is effectively implemented.

Promoting Strong Character and Citizenship Among our Nation's Youth

In addition to teaching children how to read and write, schools also play a major role in shaping student character and perceptions of civic duty. Positively shaping the character and civic awareness of tomorrow's citizens is necessary for teachers to create a climate of respect in schools. School climate can influence the behavior of students. In a positive climate, students can learn widely shared ethical values and use these values as a basis for making decisions about behavior. Teachers and students model these values and uphold a high standard of conduct. Positive climate and character education can have a positive impact on student behavior. According to recent findings from the congressionally mandated National Longitudinal Study on Adolescent Health,[5] students who feel connected to school are less likely to use substances, engage in violent behavior, experience emotional distress, or become pregnant. The study also found that school climate was the strongest factor associated with student connectedness.

The Department created a technical assistance center for character education and civic engagement in FY 2003 to help support character education grantees and other communities in identifying and implementing effective character education strategies. The Department continued support of demonstration grants designed to help identify effective, research-based practices in character education.

Character Education and Citizenship. Under NCLB, the Partnerships in Character Education program provides grants to state educational agencies and local educational agencies to implement character education programs that involve parents, students, and the community. The grants require training for educators to integrate character education into the existing curriculum. The grantee projects support rigorous evaluation to show that character education can be successfully implemented in schools and contribute to academic achievement.

Outcome evaluation was a key priority for grants awarded under Partnerships in Character Education. The state of Missouri received $508,527 to implement an evaluation of Show Me CHARACTER*plus*, an initiative addressing how schools and communities work together in character education. Sixty-four schools were randomly selected and recruited to participate in the study. Based on a locally developed character education model, school leadership teams comprised of parents, students, local businesses, and community organizations were trained on how to present a character education program to their school staff. At the training, each leadership team received an individualized report on baseline data collected in the spring of 2003 from their schools and training on how to use the data to prepare an action plan for the coming year. The baseline data collectively represent information from over 9,000 survey responses from students, educators, and parents participating in the federal Partnerships in Character Education grant program.

The Civic Education program supports "We the People," an instructional program on the history and principles of the U.S. Constitution and the Bill of Rights. The program focuses on elementary, middle school, and high school students and is administered by the nonprofit Center for Civic Education.

At the high school level, classes may choose to compete in a simulated hearing in which the student's knowledge of the Constitution is tested. At the middle school level, the program is designed to develop interest in public policy making as well as the ability to participate competently and responsibly in state and local government. At the elementary level, the program is designed to educate students about the Constitution at a basic level.

To improve the professional development of state and local coordinators and classroom administrators, a "We the People Civil Rights Seminar" was held in Birmingham, Ala. The seminar was conducted in collaboration with the Birmingham Civil Rights Institute and the Birmingham Law-Related Education Association.

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[5] Clea A. McNeely, James M. Nonnemaker, Robert W. Blum, "Promoting Student Connectedness to School: Evidence from the National Longitudinal Study of Adolescent Health," *Journal of School Health*, April 2002.

Performance Measure Summary

The Department's 2003 Annual Plan set targets related to two objectives for Goal 3:

- Ensure that our nation's schools are safe and drug-free and that students are free of alcohol, tobacco, and other drugs.
- Promote strong character and citizenship among our nation's youth.

The following tables report our results for each objective; full information is provided in appendix A.

Objective 3.1 **Safe and Drug-Free Schools**

Measures	FY 2003	FY 2002
Violent Crimes at School	P	P
Substance Abuse	P	R

See page 30 for the color score explanation.

Violent Crimes at School. Results on the number of serious violent crimes and violent crimes experienced at school by students ages 12–18 are pending. Data for FY 2002 are expected in November 2004, and data for FY 2003 are expected in November 2005.

Substance Abuse. Results for FY 2002 on the percentage of youth ages 12–17 who reported the use of alcohol, tobacco, marijuana, cocaine, and heroin were released after our *FY 2002 Performance and Accountability Report* was published. We did not meet our targets for use of alcohol, tobacco, marijuana, or heroin. Our Office of Safe and Drug-Free Schools is targeting its efforts toward improving these outcomes. Data for FY 2003 are expected in September 2004.

Results for FY 2003 drug use on school property are pending, and data are expected in September 2004; FY 2002 was not a collection year for these measures.

Objective 3.2 **Character and Citizenship**

Measures	FY 2003	FY 2002
Community Service	NC	NC
Behavior in School	P	R

See page 30 for the color score explanation.

Community Service. Results on the percentage of 12th-grade students who participated in community service or volunteer work are unavailable and not expected. Data that supported this measure will not be collected for FY 2003, and the Department plans to discontinue the measure.

Behavior in School. Results are pending for both the percentage of 12th-grade students who would dislike it if a student intentionally did things to make his or her teacher angry and the percentage of students who think that most students in their classes would dislike it if a student cheated on a test. Data are expected in December 2003.

The Department failed to meet its targeted percentage of 14- to 18-year-olds who believe cheating occurs by half or most students. Fifty percent of students believe cheating occurs, which is 11 points higher than the target of 39 percent.

The 11-percentage-point difference between the target and actual data for this measure may be due to changes in the survey question and response options in the 2003 State of Our Nation's Youth Survey. Because of these changes, data may not be comparable to previous years'. Previous questions addressed students who *believe* that cheating occurs either in no or few students or in half or most students. The 2003 question asked respondents from what they *know*, what proportion of students cheat, using the following categories: just a few, about 25 percent, about half, about 75 percent, nearly all, or not sure. The Department compared the aggregate of the responses for about half, about 75 percent, and nearly all categories with its target. The survey question on cheating was not asked in 2001 and 2002.

Programs Supporting Goal 3

Program Name	Budget† FY 2003 $ in millions	Expenditures†† FY 2003 $ in millions	Program Performance Targets FY 2003 % Met	FY 2003 % Not Met	FY 2003 % No Data	FY 2002 % Met	FY 2002 % Not Met	FY 2002 % No Data
ESEA: Character Education (FIE)	25	12	0	0	100		◆	
ESEA: Civic Education: We the People	17	16		*		0	0	100
ESEA: Close-Up Fellowships	2	1	*					
ESEA: Elementary and Secondary School Counseling (FIE)	33	32	0	0	100		◆	
ESEA: Exchanges with Historic Whaling and Trading Partners (FIE)	7	3	*					
ESEA: Foundations for Learning Grants (FIE)	1	0		*			///	
ESEA: Physical Education Program—Carol M. White (FIE)	61	36	0	0	100		◆	
ESEA: Safe and Drug-Free Schools and Communities—Alcohol Abuse Reduction	25	12	0	0	100		◆	
ESEA: Safe and Drug-Free Schools and Communities—Federal Activities and Evaluation	138	127	0	0	100	0	0	100
ESEA: Safe and Drug-Free Schools and Communities—Mentoring Program	18	12						
ESEA: Safe and Drug-Free Schools and Communities—National Coordinator Program	17	49						
ESEA: Safe and Drug-Free Schools and Communities—Project SERV	5	1						
ESEA: Safe and Drug-Free Schools and Communities—State Grants	472	467	0	0	100	0	0	100
ESEA: Safe and Drug-Free Schools and Communities—State Grants for Community Services for Expelled or Suspended Students	50	6	0	0	100		◆	
Total	**871**	**774**						

† Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

†† Expenditures occur when recipients draw down funds to cover actual outlays. FY 2003 expenditures may include funds from prior years' appropriations.

* Denotes programs with funding below $20 million without targets—the Department prioritized setting targets for programs over $20 million.

◆ Denotes programs over $20 million without targets.

/// Denotes programs not yet implemented. (Programs are often implemented near the end of the first year they are funded.)

ESEA = Elementary and Secondary Education Act
FIE = Fund for the Improvement of Education

For programs with performance measures, program performance reports are available on the Web at http://www.ed.gov/about/reports/annual/2003report/index.html. Appendix C contains a sample program performance report.

Performance Details

Goal 4: Transform Education into an Evidence-Based Field

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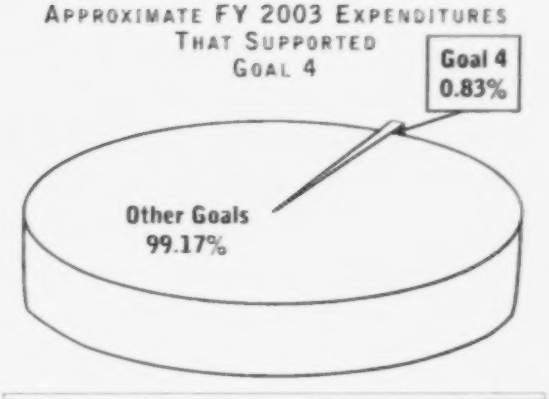
For the first time ever, we are applying the same rigorous standards to education research as are applied to medical research and other fields where lives are at stake. For the first time ever, we are insisting that states pay attention to the research. And for the first time ever, we are insisting on evidence-driven teaching methods that really work.

—*Secretary Rod Paige*

Goal 4:
Transform Education Into An Evidence-Based Field

The persistent challenge for educators is to improve teaching and learning. But when we measure student achievement, we continue to see slow progress toward that goal. The No Child Left Behind Act (NCLB) promotes improving teaching and learning by using research findings on what works in education and applying them to classroom practice and educational policy. The words *scientifically based research* connected to improving teaching and learning appear more than 100 times in NCLB. The Act defines scientifically based research as "research that involves the application of rigorous, systematic, and objective procedures to obtain reliable and valid knowledge relevant to education activities and programs." The goal of transforming education into an evidence-based field is a two-part process: (1) undertaking high-quality and relevant research and (2) turning research results into policy or practice usable and useful for policy makers and practitioners. Under Goal 4, we focus on research on improving student learning and achievement for all students, including, for example, individuals with special needs and circumstances, and adult learners. We also include disability and rehabilitation research to improve educational, employment, and independent living opportunities for persons of all ages who are disabled.

Department Expenditures



Research for Instruction

Today's environment of student and teacher accountability has raised the stakes for finding effective solutions to pressing problems. What are the best programs for developing English language learners' reading skills—immersion or bilingual? Will small classes or small high schools improve academic success rates? Do teachers need a master's degree in their subject area to be good teachers? The information relevant to these immediate, everyday education questions come from a variety of sources: observational studies, reflections on personal experience, demonstration projects, and scientific research. During the last decade, debates over what education interventions really work, are sustainable, and can be successfully implemented on a broad scale have led many members of the education community to conclude that the nation's education research is deficient in quantity and quality. Many educators suggest that education research should take its model from medical research where randomized trials are the "gold standard" for answering questions about what works—questions about the effectiveness of programs and practices. At this juncture in the education research debate, the Department is following the direction of legislation passed by Congress in 2002.

Congress advanced education research by requiring scientifically based evidence as a basis for many of the programs authorized in NCLB and by passing the Education Sciences Reform Act of 2002, which established a new arm of the Department, the Institute of Education Sciences (IES). IES replaced the Office of Educational Research and Improvement (OERI) and now has primary responsibility for overseeing education research for the Department. The IES mission is to provide national leadership in expanding fundamental knowledge and understanding of education. Structural changes incorporated into the new IES included provisions for greater stability in leadership, increased

Team Leader

capacity for establishing and sustaining a focused research agenda, and enhancement of a climate of research scholarship. IES established a new organizational structure to create an infrastructure for education research, to provide for the dissemination of research-based results, and to prepare for widespread use of scientifically proven interventions. The new organization plan was approved August 2003. The plan included reducing the staffing level from 315 for OERI to 185 for IES through a Voluntary Separation Incentive Plan (authorized in the Homeland Security Act), administrative transfers, and ordinary attrition. IES added 18 staff with doctorates to bolster the number of employees with scientific-research credentials. A 15-member National Board for Education Sciences is being recruited and established to serve as advisors to IES.

IES moved quickly to create quality standards for research and review. IES also dramatically changed the methodological rigor of research funded by the Institute:

- Funding announcements were written to highlight and prioritize methodological rigor and randomized trials for competitions in which the primary goal is to identify causal connections between programs and outcomes.
- IES speeches, conferences, and advisory documents sent a consistent and clear message to the education-research community about the types of methods and approaches favored by IES to answer questions about what works.
- New peer review procedures were modeled on those used at the National Institutes of Health where peer review committees are populated with scientists and methodologists who hold applicants to the methodological requirements of funding announcements.
- Only applications that were highly meritorious in both rigor and relevance were funded.

The What Works Clearinghouse (WWC), established by the Department in 2002, began its role as a crucial facilitator of the IES mission in 2003. WWC will ultimately provide educators, policy makers, and the public with a central, independent, and trusted source of scientific evidence for what works in education.

WWC, in its first year of operation, began systematic review of seven research topics that reflect a wide range of our nation's most pressing education issues.

WWC Research Topics

- **Interventions for beginning reading** (interventions for students in grades K–3 that are intended to increase a variety of reading skills)
- **Curriculum-based interventions for increasing K–12 math achievement** (interventions that contain learning goals for students, instructional programs and materials, and assessments)
- **Preventing high school dropout** (interventions in middle, junior high, and high school designed to increase high school completion)
- **Programs for adult literacy** (programs that focus on literacy and language skills needed to function effectively in everyday life)
- **Peer-assisted learning in elementary schools: reading, mathematics, and science** (interventions that are designed to improve an elementary school academic outcome and that routinely use students to teach each other)
- **Interventions to reduce delinquent, disorderly, and violent behavior in and out of school** (programs aimed at preventing or reducing disruptive, illegal, or violent behavior among middle and high school students)
- **Interventions for elementary school English language learners: increasing English language acquisition and academic achievement** (interventions designed to improve the English language literacy or academic achievement of elementary school students who are English language learners)

WWC analysis teams conduct reviews of individual studies, existing research on specific interventions, and research in topic areas and assess it based on rigorous scientific protocols created specifically for WWC. WWC uses a thorough and objective system of standards and criteria established in consultation with its Technical Advisory Group. WWC Evidence Reports will be released on a continuing basis as the reviews are completed and will be available to the public on the WWC Web site (http://www.w-w-c.org/). WWC is continually seeking nominations for studies, interventions, and topic areas to be reviewed that are important to the public and the education community at wwcinfo@w-w-c.org.

IES research standards had a ripple effect in the commercial education market where many companies that serve this market are beginning to set up internal research divisions to ensure that their products meet WWC standards.

Common sense dictates that all of the quality research we can generate will not create change unless practitioners and policy makers recognize the relevance of the research results and put them to use. The Department's role in informing the education community of evidence-based results is through the widespread dissemination of information.

The National Center for Education Statistics (NCES) was created in 1867 to "gather statistics and facts on the condition and progress of education in the United States and Territories." The Education Sciences Reform Act of 2002 reaffirms this mandate and calls on NCES to release information that is valid, timely, unbiased, and relevant. NCES submitted *The Condition of Education 2003* to Congress and the public as a partial response to this mandate. The annual report presents indicators of important developments and conditions in American elementary, secondary, and postsecondary education, such as enrollment trends, access of minorities to postsecondary education, the academic achievement of students, comparisons of the United States education system with education systems in other countries, and the role of education on employment and economic productivity. *The Condition of Education 2003* is available in print from ED Pubs and electronically at http://nces.ed.gov/programs/coe.

In 2003, NCES also produced a series of public reports on the National Assessment of Educational Progress (NAEP). The NAEP, also known as the Nation's Report Card, is the only nationally representative and continuing assessment of what the nation's students know and can do in various subject areas. The 2003 national and state NAEP tested reading (grades 4 and 8) and mathematics (grades 4 and 8). See pages 202-207 for NAEP data that inform Department measures and targets. The NAEP Data Tool, which is available online at http://nces.ed.gov/nationsreportcard/naepdata, provides parents and other members of the public with a way to explore national and state NAEP data.

The Education Resources Information Center (ERIC), which dates back to 1966, is the well-known electronic education library that continues to transmit education information. IES began an overhaul of ERIC in 2003 to provide a friendlier interface and search engine and to give access to a longer list of journals and reports based on high-quality research. It also laid the groundwork for a competition that will award a new ERIC contract to replace the 19 current contracts when they expire in fiscal year (FY) 2004. The new ERIC will increase the availability and quality of research-based information for educators, researchers, and the public through a searchable Internet-based online database.

The 10 regional education laboratories conducted applied research, development, dissemination, and technical assistance activities under the guidance of a regional governing board. The labs are engaged in new efforts to bring stronger scientific evidence to bear in outreach activities and in their own applied research.

Research on Disability and Rehabilitation

Disability and rehabilitation research has been conducted through the National Institute on Disability and Rehabilitation Research (NIDRR) since its creation in 1978. Researchers funded by NIDRR have achieved many significant outcomes benefiting both individuals with disabilities and society at large. NIDRR's Long-Range Plan for 1999–2003 addressed priorities in five major research areas: employment outcomes, health and function, technology for access and function, independent living and community integration, and associated disability research areas.

Results from NIDRR's investment in research and development for 2002–03 span the spectrum from significant outputs that improve the knowledge base and the tools available for conducting research and delivering rehabilitation interventions to intermediate outcomes that increase consumers' access to assistive technologies to promote independent living and community integration. To measure the quality of its major research projects, NIDRR convenes review panels of researchers with expertise in the various content areas to assess the quality of grant work and to make recommendations for future activities. NIDRR also tracks publications in peer-reviewed scholarly journals that stem from funded research. Among the notable accomplishments from NIDRR's research projects in the last year are those listed below:

- A computer-based prosthetic arm design and simulation system that facilitates the design of appropriate arm prostheses for individuals with upper-limb amputations, improves clinical decision making, and allows consumers to be involved in choosing their own technology.
- New computerized technology for alignment of trans-tibial (leg) prostheses to improve the mobility of individuals with foot amputations. Northwestern University investigators, with project funding from NIDRR, are seeking a patent for this tool.
- Development of an innovative and adaptive prototype to facilitate the fabrication of low-cost prosthetic sockets for individuals with amputations in low-income countries and regions within the United States that uses sand as an alternative to the more expensive plaster of paris used in conventional fabrication methods.
- Co-development of an improved power management and monitoring system that approximately doubles the life span of wheelchair batteries and reduces user stress, repetitive motion injury, and other secondary disabilities while improving safety, ease of maintenance, and affordability.
- Development and dissemination of an effective new health behavior education curriculum that is being used by agencies in the United States and internationally to improve the physical activity and recreational skills of people with intellectual and developmental disabilities.

Performance Measure Summary

The Department's 2003 Annual Plan set targets related to two objectives for Goal 4:

- Raise the quality of research funded or conducted by the Department.
- Increase the relevance of our research in order to meet the needs of our customers.

The following tables report our results for each objective; full information is provided in appendix A.

Objective 4.1	Quality of Research		
	Measures	FY 2003	FY 2002
	Quality of Research Projects and Publications	R	Y
	Use of Randomized Experimental Designs	Y	G

See page 30 for the color score explanation

Quality of Research. To measure the quality of the Department's research, review panels composed of senior scientists with expertise in various content areas were convened by the Department to evaluate random samples of Department publications and newly funded proposals. The Department looked at the percentage of new IES and Office of Special Education Programs (OSEP) research and evaluation projects funded by the Department that were deemed to be of high quality by the review panels, and we looked at the percentage of new IES and OSEP research and evaluation publications that were deemed to be of high quality. FY 2003 data show that 66 percent of our evaluation projects were deemed to be of high quality by an independent review panel. Our FY 2003 target was 90 percent. Although we improved our performance over FY 2002, we did not meet our target. IES and OSEP intend to continue to monitor and provide technical assistance to applicants for research and evaluation grants to ensure that projects are of high quality and meet quality review standards. The Department did not submit new publications for the panel's review; consequently, we could not collect new data on our publications measure.

Randomized Experimental Designs. To measure whether Department-funded education research and evaluation projects and publications that address causal questions employ randomized experimental designs, research staff evaluate all newly funded education research proposals using quality review standards developed by IES. Each product and proposal is reviewed to determine if the project includes questions of effectiveness, and, if so, whether the project employs randomized experimental designs. Inter-rater reliability checks are completed to ensure the reliability of the data. We exceeded our FY 2003 target of 71 percent; FY 2003 data show that 94 percent of projects that included questions of effectiveness employed randomized experimental designs. No new publications were reviewed for the FY 2003 report; consequently, the Department could not collect data on the percent of publications addressing causal questions that employ randomized experimental designs.

Objective 4.2 **Relevance of Research**

Measures	FY 2003	FY 2002
Relevance of New Research Projects	P	G
Use of Research by Decision Makers	NC	B

See page 30 for the color score explanation.

Relevance of New Research. Cognizant that the best research will not make education an evidence-based field unless the results of the research are useful and usable by practitioners, the Department measures the percentage of new education research projects funded by the Department that are deemed to be of high relevance to educational practice as determined by an independent review panel of qualified practitioners. Our FY 2003 target was 54 percent of new education research projects. FY 2003 data are pending and expected November 2003.

Use of Research by Decision Makers. The Department measures whether K–16 policy makers and administrators routinely consider evidence of effectiveness before adopting educational products and approaches. The sample for the Department's Decision Maker Survey includes individuals across levels in the decision- and policy-making process—district- and state-level decision makers for K–12, higher-education state and national policy makers, and leaders of national associations of education. The sample is distributed across high-, low-, and average-achieving districts and states, across urban and rural areas, and across all regions of the country. Data for 2003 were not collected. The next Decision Maker Survey will be conducted in 2005.

Programs Supporting Goal 4

Program Name	Budget†	Expenditures††	Program Performance Targets					
	FY 2003 $ in millions	FY 2003 $ in millions	FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
ESEA: Indian Education – National Activities	5	3	★					
ESEA: Title I Evaluation	10	3	★					
ESRA: Research, Development and Dissemination	164	226	50	33	17	◆		
ESRA: Statistics	119	61	0	0	100	◆		
IDEA: Research and Innovation	81	69	0	0	100	0	0	100
RA: National Institute on Disability and Rehabilitation Research	120	128	0	0	100	100	0	0
Total	**499**	**490**						

† Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

†† Expenditures occur when recipients draw down funds to cover actual outlays. FY 2003 expenditures may include funds from prior years' appropriations.

★ Denotes programs with funding below $20 million without targets—the Department prioritized setting targets for programs over $20 million.

◆ Denotes programs over $20 million without targets.

ESEA = Elementary and Secondary Education Act
ESRA = Education Sciences Reform Act
IDEA = Individuals with Disabilities Education Act
RA = Rehabilitation Act

For programs with performance measures, program performance reports are available on the Web at http://www.ed.gov/about/reports/annual/2003report/index.html. Appendix C contains a sample program performance report.

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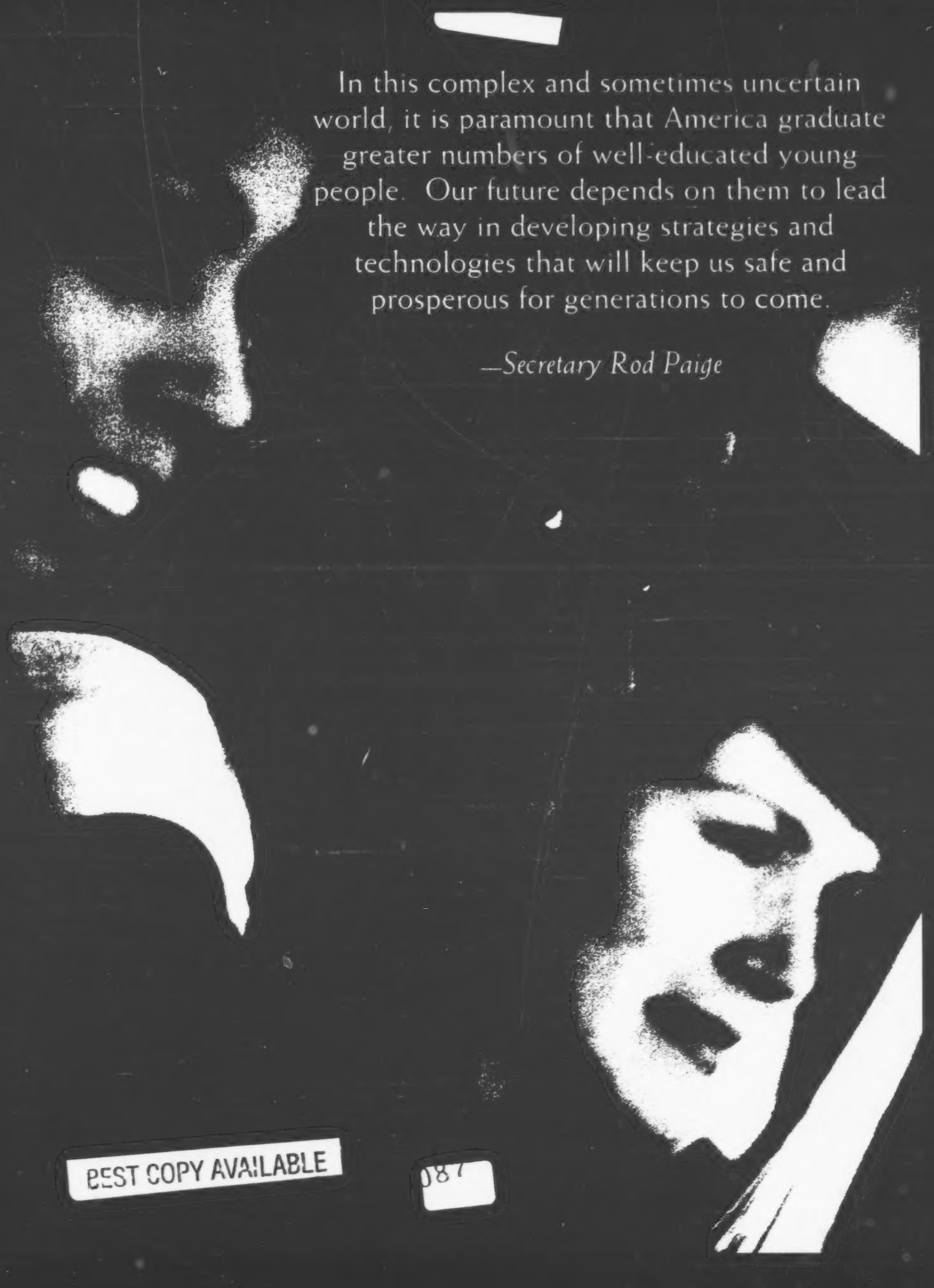
Performance Details

Goal 5: Enhance the Quality of and Access to Postsecondary and Adult Education



> In this complex and sometimes uncertain world, it is paramount that America graduate greater numbers of well-educated young people. Our future depends on them to lead the way in developing strategies and technologies that will keep us safe and prosperous for generations to come.
>
> *—Secretary Rod Paige*

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Goal 5:

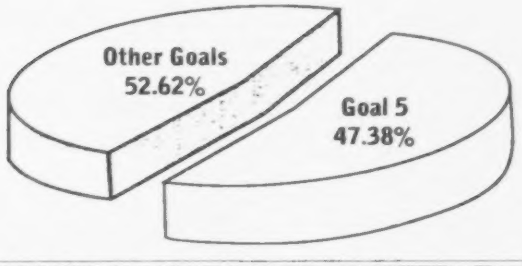
Enhance the Quality of and Access to Postsecondary and Adult Education

As a nation and as individuals, America's achievements depend more and more on pursuing higher education. The economy of the 21st century requires that Americans develop skills and master knowledge beyond the high school level and continue that education throughout their lives.

The Department's mission to ensure equal access to education and promote educational excellence throughout the nation does not end when a student graduates from high school. In fact, a large proportion of the Department's fiscal year (FY) 2003 expenditures supported postsecondary and adult education and employment. The Department worked to increase access to, enrollment in, and completion of postsecondary education for students from all economic and social backgrounds. In addition, the Department set out to improve the accountability of postsecondary institutions and to strengthen adult education, literacy, and job attainment.

Department Expenditures

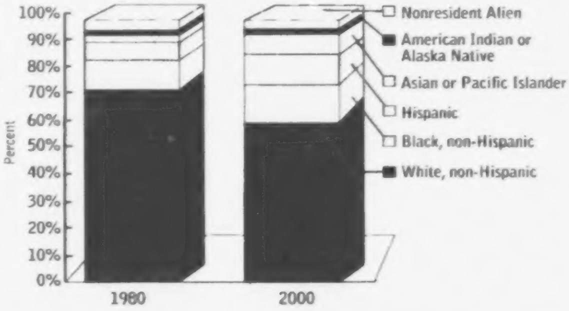
APPROXIMATE FY 2003 EXPENDITURES THAT SUPPORTED GOAL 5



Accessing Postsecondary Education

Long-term trends confirm that more Americans are going to and completing college and, notably, several underrepresented groups are participating in larger numbers. For example, studies of postsecondary education indicate that in the last two decades, college enrollment rates of students with disabilities have tripled, and these students complete their programs at a rate nearly as high as that of other students.[6] In the academic year of 1999–2000, nearly one-third of all undergraduates were minorities, while just a decade ago minorities comprised only one-quarter of the undergraduate population.[7] Although progress has been made over the years to increase participation and graduation levels for all individuals, gaps still exist in enrollment and graduation between low-income students and middle- and high-income students, and among ethnic/racial groups.

DISTRIBUTION OF ENROLLMENT FOR STUDENTS IN DEGREE-GRANTING INSTITUTIONS: 1980 AND 2000



Source. Department of Education, NCES Higher Education General Information Survey (HEGIS), Fall Enrollment in Institutions of Higher Education Surveys, Integrated Postsecondary Education Data System (IPEDS), and Fall Enrollment Surveys.

Sixty-three percent of students who enrolled at a four-year institution in 1995–96 earned a bachelor's degree at that institution within six years.[8] Overall, 29 percent of 25- to 29-year-olds had completed at least a bachelor's degree in 2001, close to double the rate 20 years earlier. The percentage of students achieving a bachelor's degree or higher increased over that time span among whites, blacks, and Hispanics. In 2001, women were more likely than men to have graduated.[9]

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[6] U.S. Department of Education press release, September 26, 2003. Available at http://www.ed.gov/news/pressreleases/2003/09/09262003a.html.

[7] U.S. Department of Education, National Center for Education Statistics. *The Condition of Education 2003*, NCES 2003-067. Washington, DC: 2003. Available at http://nces.ed.gov/pubs2003/2003067.pdf.

[8] U.S. Department of Education, National Center for Education Statistics. *1995-96 Beginning Postsecondary Students Longitudinal Study, Second Follow-up* (BPS:96/01).

Affording Postsecondary Education

For many students, access to money for college is equivalent to *access to college*. Because financial aid is often one factor in whether students are able to enroll in higher education, the majority of Department postsecondary and adult education funds go to students in the form of grants and loans.

Tuition costs relate in another significant way to the Department's mission to increase access to postsecondary education. As tuition costs rise, the gap in college enrollment between high- and low-income students can grow. In 2000, tuition at a public four-year institution rose to 25 percent of the income of families in the lowest income quintile, up from 13 percent in 1980.[10]

Tuition costs rose sharply this past year, between 5 and 8 percent *on top of* inflation (2002–03 academic year).[11] Many of these increases occurred at public colleges and universities. More than 25 state colleges or university systems, which have historically served as lower-cost alternatives to private institutions, increased their tuition between 10 and 20 percent this past year.

The recent trend of tuition increases outpacing inflation is likely to continue, as state budgets undergo further cuts and competing demands from Medicare and other government services for the elderly increase as the population ages.

The median student federal loan amount nearly tripled between 1990 and 1999, rising from $4,000 to $11,199; students are increasingly turning to nonfederal sources of loans, including credit cards, to pay college expenses. These trends are occurring even though funding for federal grants and other campus-based aid programs continues to grow. Students are also taking on more employment while in school to cope with rising costs. Between the 1989–90 and 1999–2000 academic years, the proportion of students working full time during the school year rose 7 percent.[12]

> **A college education is a ticket to a better future... President Bush and I are doing everything possible to see that the college attendance rate continues to grow. We want to ensure access to college and career training by providing grants and low-cost student loans to help individuals finance postsecondary education for themselves and their children.**
>
> —Secretary Rod Paige

Pell Grants, Direct Student Loans, Federal Family Education Loans, and other federal programs can increase access to college for various socioeconomic groups. By primarily assisting the lowest-income students and minorities, federal aid can reduce the education gap.

The Department's Office of Federal Student Aid (FSA) manages and administers postsecondary student financial assistance programs as authorized by Title IV of the Higher Education Act (HEA). Through its school, lender, and Guaranty Agency partners, FSA delivered about $60 billion in total new federal aid to approximately 8.9 million recipients in FY 2003, a large increase from the $27.0 billion delivered to 7.1 million recipients 10 years ago. FSA directly manages or oversees a loan portfolio valued at $321 billion, representing 22 million borrowers with outstanding loans.

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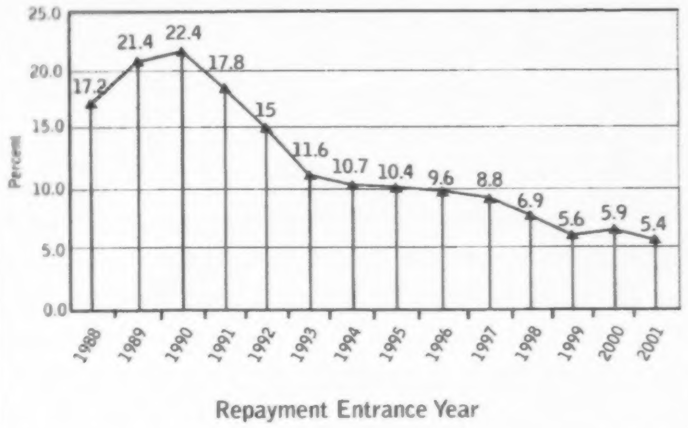
[9] U.S. Department of Education, National Center for Education Statistics, *The Condition of Education 2002*, Washington, DC: 2003. NCES 2002-025. Indicator 25. Available at http://nces.ed.gov/programs/coe/2002/section3/tables/t25_3.asp

[10] The National Center for Public Policy and Higher Education, *Losing Ground: A National Status Report on the Affordability of American Higher Education*. San Jose, CA: 2002. Figure 1, Page 5.

[11] College Board, *Trends in Pricing*, 2002. Available at http://www.collegeboard.com/press/cost02/html/CBTrendsPricing02.pdf

[12] Survey by National Association of State Universities and Land-Grant Colleges available at http://www.nasulgc.org/publications/StudentChrgs2003.pdf

STUDENT LOAN COHORT DEFAULT RATE: 1988 TO 2001



Source. Department of Education, Office of Federal Student Aid, *Official Cohort Default Rates for Schools*, 2003, http://www.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html.

The cohort default rate is the percentage of borrowers who enter repayment in a fiscal year and default by the end of the next fiscal year. The nation's student loan cohort default rate has dropped to an all-time low of 5.4 percent (data for FY 2001, the most recent available). For the first time since cohort default rates have been used to regulate school participation, all schools have rates low enough to ensure they remain eligible for federal financial aid programs. The national cohort default rate has dropped nearly every year since 1990 when it peaked at 22.4 percent. The low national default rate reflects a concerted effort by the Department and its student aid partners to increase borrower awareness of repayment obligations, to track borrower delinquencies, and to counsel borrowers who get behind in their payments. The Department has also effectively used tools provided by Congress to minimize defaults and remove schools with high default rates from the student loan programs. In the last decade, nearly 1,200 schools have lost eligibility to participate in the federal loan programs due to their high default rates. The 1998 Amendments to the HEA extended by three months - to 270 days from 180 days - the length of time it takes a delinquent borrower to default on a student loan. The effect of this change was first felt with the release of the FY 1998 cohort default rates, which decreased by 1.9 percent from the FY 1997 rates with approximately half of the decrease being attributed to the time extension. For the last three years, with the release of the FY 1999, 2000 and 2001 rates, the change in default date has been fully implemented.

Total recoveries on defaulted student loans will exceed $5 billion in FY 2003 for the third year in a row. Over $350 million was recovered by matching the entire defaulted loan portfolio with the National Directory of New Hires, a database that contains employment and income information on all persons employed in the United States. This matching process enabled the Department to find current address information for more than 2 million borrowers with defaulted loans.

Making students and their parents aware that financial aid is available is a necessary first step to further their education. The Department developed a comprehensive Aid Awareness and Access Strategy that includes establishing a variety of national, regional, and local organization partnerships that share a common goal of promoting awareness of and access to postsecondary education. The partnership advances a consistent message of the importance of pursuing postsecondary education and will increase the accuracy of information available to the public. In addition, the Department's Web site was upgraded and rebranded as Student Aid on the Web. The site, http://www.studentaid.ed.gov, provides interactive content to help students and parents learn about college costs and apply for federal aid.

The Department also improved the targeting of aid toward those most in need. The Upward Bound program, which works to increase the high school graduation and college enrollment rates of low-income,

potential first-generation college students, has instituted a participation expansion initiative to better enable participating schools to target their high-risk population. This initiative allowed 219 additional supplements to applicants that were willing to serve higher-risk students at targeted high schools. Almost 4,200 additional high-risk students will have the opportunity to receive Upward Bound services to help them prepare to attend college. Other programs such as Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) and Talent Search seek to increase the number of youth from low-income and disadvantaged backgrounds entering postsecondary education.

Furthermore, the Department responded to some emerging constituent needs with flexibility. For example, under the Higher Education Relief Opportunities for Students Act of 2003 (HEROES) program, the Department worked with Congress to offer relief from student loan obligations to men and women called to active military duty. Responding to a growing number of home-schooling constituents, the Department published guidance to clarify that postsecondary institutions admitting home-schooled students as regular undergraduate students may do so in certain circumstances without jeopardizing their eligibility to participate in the HEA Title IV student financial assistance programs.

Additional information on federal student aid programs is available from the Department's FSA Information Center 1-800-4FED-AID (433-3243) or the FSA Web site found at http://www.ed.gov/offices/OSFAP/Students/student.html. Other programs that provide opportunities for low-income or at-risk students to pursue postsecondary education can be accessed at http://www.ed.gov/about/offices/list/ope/programs.html.

Improving Postsecondary Education for Minorities

It is clear that minorities and students with disabilities are gaining access to postsecondary opportunities, and women have surpassed men in overall enrollment rates. However, there is much more to be done to ensure that all have equal opportunity for postsecondary education.

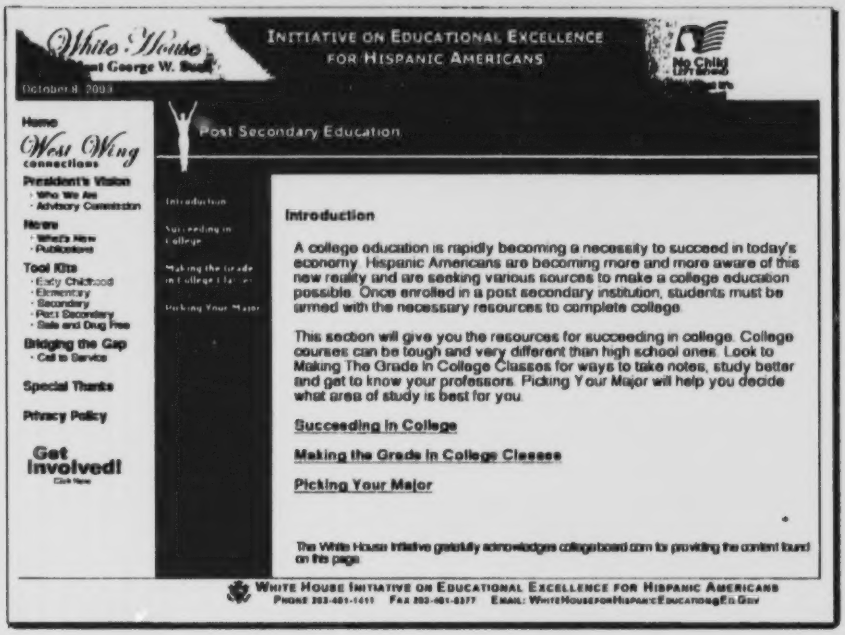
Strengthening the capacity of institutions dedicated to serving low-income and minority students, including Historically Black Colleges and Universities (HBCUs), Hispanic-Serving Institutions (HSIs), and Tribal Colleges and Universities (TCUs), is vital to closing the gap between low-income, minority students and their high-income or nonminority counterparts.

The Aid for Institutional Development Programs (commonly called the Title III Programs) support improvements in educational quality, management, and financial stability at qualifying postsecondary institutions. Funding is focused on institutions that enroll large proportions of minority and financially disadvantaged students with low per-student expenditures. One of the primary missions of the Title III Programs is to support the nation's HBCUs. Title III also supports American Indian Tribally Controlled Colleges and Universities, and Alaska Native and Native Hawaiian Serving Institutions. Furthermore, Title III includes the Minority Science and Engineering Improvement Program. Since 1998, there has been a 74 percent increase in funding for HBCUs, a 96 percent increase for Historically Black Graduate Institutions and a 33 percent increase for institutions that serve large numbers of needy students.

The White House Initiative on HBCUs has made major efforts to provide additional funding to HBCUs to increase the number of minorities and low-income students in the fields of math, science, technology, and teacher education. Further, global partnerships between HBCUs and universities in many of the countries of Africa and the Caribbean are being established to support institutional capacity building, research, agriculture and food security, and enterprise development.

In an effort to fortify HBCU schools of business, HBCU leaders, government officials, and private business representatives met at Harris-Stowe State College in St. Louis to discuss strategies and opportunities aimed at enhancing these programs. Continued commitment and support from major corporations will allow black colleges to prepare tomorrow's business leaders with the knowledge and skills they need to be successful. The summit also focused on areas such as increasing the number of schools that are recognized by accrediting associations, providing the platform to advance business and technology efforts to support enhanced curricula, and increasing the number of minority students entering business career fields. Among the major corporations in attendance were AT&T, Microsoft, Apple Computer, and ConAgra Foods, which held workshops and panel discussions for HBCU deans.

A recent study released by the Tomas Rivera Policy Institute indicated that Hispanic children are more likely to miss out on crucial steps leading to college because their parents lack the necessary information to make college a reality. The White House Initiative on Educational Excellence for Hispanic Americans has


White House
President George W. Bush
October 8, 2003
INITIATIVE ON EDUCATIONAL EXCELLENCE FOR HISPANIC AMERICANS
No Child Left Behind
Home
West Wing connections
President's Vision
· Who We Are
· Advisory Commission
News
· What's New
· Publications
Tool Kits
· Early Childhood
· Elementary
· Secondary
· Post Secondary
· Safe and Drug Free
Bridging the Gap
· Call to Service
Special Thanks
Privacy Policy
Get Involved!
Click Here
Post Secondary Education
Introduction
Succeeding in College
Making the Grade in College Classes
Picking Your Major

Introduction

A college education is rapidly becoming a necessity to succeed in today's economy. Hispanic Americans are becoming more and more aware of this new reality and are seeking various sources to make a college education possible. Once enrolled in a post secondary institution, students must be armed with the necessary resources to complete college.

This section will give you the resources for succeeding in college. College courses can be tough and very different than high school ones. Look to Making The Grade in College Classes for ways to take notes, study better and get to know your professors. Picking Your Major will help you decide what area of study is best for you.

Succeeding in College

Making the Grade in College Classes

Picking Your Major

The White House Initiative gratefully acknowledges collegeboard.com for providing the content found on this page.

WHITE HOUSE INITIATIVE ON EDUCATIONAL EXCELLENCE FOR HISPANIC AMERICANS

The Department's YesICan bilingual Web site one-stop information center to increase college knowledge.

taken strides to resolve this problem and equip Hispanic families with the necessary tools to help their children continue their education. Treasurer of the United States Rosario Marin and Latin recording artist Jon Secada, members of the President's Advisory Commission on Educational Excellence for Hispanic Americans, unveiled a new bilingual Web site (www.YesICan.gov; www.YoSiPuedo.gov) that provides parents with a one-stop information center to increase knowledge of how to succeed in postsecondary education. The launch was a nationwide grassroots effort that included a national public awareness campaign with the Hispanic Broadcasting Corporation on their 55 Hispanic-focused radio stations.

President Bush's Advisory Board on Tribal Colleges and Universities held its first meeting in Santa Fe after it was sworn in during a traditional ceremony. The 13-member board includes TCU presidents, educators, and community and business leaders and is charged with making recommendations to the White House and Secretary Paige on ways the federal government and the private sector can help develop tribal colleges and increase their resources, programs, facilities, and technologies. At its first official meeting, the board began gathering information on issues important to TCUs nationwide to help ensure TCUs have full access to federal and private programs and funds. "With No Child Left Behind, we will help ensure that more American Indian youngsters receive a quality education and are prepared to pursue and benefit from higher education," said Secretary Paige. "Our tribal colleges and universities are an important vehicle for making the promise of this bold new law a reality."

Continuing Education, Gaining Employment

In today's economy, education is the foundation for success. The Department recognizes the need for retaining and building skills throughout life and supports lifelong literacy, adult education, transition to employment, and vocational rehabilitation (VR) programs to help Americans turn their skills into family-supporting wages.

The skills required of our workforce are converging with skills needed and taught within postsecondary education. As the American Youth Policy Forum

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recently noted in its white paper, *Rigor and Relevance: A New Vision for Career and Technical Education*, "the past division between preparation for college and preparation for work has become a false dichotomy." As the economy turns to a knowledge economy, the need for our workforce to have mastered reading, writing, and other basic skills increases in parallel.

To effectively bring more adults into the workforce, a cooperative relationship with today's business leaders and an informed understanding of corporate needs are essential. The Department collaborated with the Department of Labor on the Workforce Innovations Conference (http://www.workforceinnovations.org) held in July 2003. This conference dealt with issues such as aligning economic development with workforce investment and facilitating employment through services and partnerships. The conference yielded strategies to bring workforce investment boards, schools, and businesses together to meet the labor needs of the 21st century. These strategies integrate workforce investment board plans with those of businesses and postsecondary institutions, particularly community colleges. The conference also emphasized ways for workforce professionals to help workers come out of declining industries and to accelerate entry into fast-growing industries with education.

The Department formed a partnership with the U.S. Chamber of Commerce to educate the Chamber's 3 million members about programs designed to assist businesses in employing people with disabilities. This partnership highlighted the month of October as National Disability Employment Awareness Month by organizing and hosting a Web-based event to promote the partnership. As a result of these activities, the Department and the U.S. Chamber of Commerce are in the process of developing key employment materials for dissemination to 3,000 state and local chambers regarding disability issues, such as the Americans with Disabilities Act and business tax credits and incentives.

The Rehabilitation Services Administration (RSA) has overseen programs for the provision of services, including education and training, physical restoration, job development, and job-placement services for individuals with disabilities since 1920, and RSA currently operates under the authority of the Rehabilitation Act of 1973. In FY 2003, RSA's largest program, the state-federal VR Program, served over 1 million individuals with disabilities through a network of 80 affiliated agencies. RSA also funded programs promoting services for independent living and the training of individuals for work in various fields related to rehabilitation. Furthermore, RSA provided rehabilitation technology for use by individuals with disabilities to develop opportunities to work from home.

In FY 2001 (the latest year for which detailed individual record information is available) State VR agencies provided training in college and university settings to 149,063 individuals and training in vocational and occupational skills settings to 102,931 individuals. Data on individuals who exited the VR program in FY 2001 show that 30,280 individuals who received college or university training obtained

Transition to Small Business Owner

Jennings Hanseth III, better known as Trepp in Bainbridge, Washington, is a client of the Washington Division of Vocational Rehabilitation (DVR) and now a small business owner. The "Fresh Mini Donuts" business in which Trepp is a partner is part of a unique self-employment co-op made possible through the coordination of services of Bainbridge Island Special Needs Foundation, DVR, and others.

employment, predominantly employment in the professional, technical, and managerial job categories. In addition, 26,931 individuals who received vocational and occupational skills training obtained employment. These outcomes were distributed over a wide range of occupational categories, including professional, technical, and managerial jobs; clerical and sales jobs, service jobs; and a variety of processing, machine trades, bench-work, and structural occupations.

Finally, for researchers and policy makers to better understand and address the nation's literacy needs, the Department in FY 2003 initiated the National Assessment of Adult Literacy, a household survey of the English language literacy abilities of American adults. It will provide the first measure in a decade of the nation's progress in improving the literacy skills of adults; providing information on the reading, writing, and math skills of adults; and learning how these skills affect employability and earnings. Data will be collected through December 2003 and analyzed and reported by May 2005.

09!

Performance Measure Summary

The Department's 2003 Annual Plan set targets related to five objectives for Goal 5.

- Reduce the gaps in college access and completion among student populations differing by race/ethnicity, socioeconomic status, and disability while increasing the educational attainment of all.
- Strengthen accountability of postsecondary institutions.
- Establish effective funding mechanisms for postsecondary education.
- Strengthen Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities.
- Enhance the literacy and employment skills of American adults.

The following tables report our results for each objective; full information is provided in appendix A.

Objective 5.1	**College Access and Completion**		
	Measures	**FY 2003**	**FY 2002**
College Enrollment		**P**	**P**
College Completion		**P**	**P**

See page 30 for the color score explanation.

College Enrollment. From 1999 to 2001, the percentages of Hispanic and high-income high school graduates immediately enrolling in college have increased, but percentages of white, black, and low-income graduates immediately enrolling have declined. Enrollment gaps between whites and Hispanics are consistently decreasing, but gaps between white and black students are changing direction from year to year. FY 2002 data will be available in December 2003, and FY 2003 data will be available in December 2004.

College Completion. From 1999 to 2000, among full-time bachelor's degree students, the percentages of Hispanic and black students graduating within six years are increasing, with the percentage of white students declining slightly. At two-year postsecondary institutions, however, percentages of students completing programs within three years are declining for all subgroups. Data for both FY 2001 and FY 2002 will be available in February 2004, and data for FY 2003 will be available in November 2004.

Objective 5.2	**Accountability of Postsecondary Institutions**		
	Measure	**FY 2003**	**FY 2002**
Submission of Title II Reports		**P**	**G**

See page 30 for the color score explanation.

Accountability Data. The percentage of states submitting Title II reports with common definitions (so the data may be compared and compiled) increased from 63 to 80 percent in 2002. The Department set a high target—100 percent of states—for 2003. FY 2003 data will be available in April 2004.

Objective 5.3 Effective Funding Mechanisms

Measures	FY 2003	FY 2002
Tuition Increases	P	R
Unmet Need	NC	NC
Borrower Indebtedness	NC	NC

See page 30 for the color score explanation.

Tuition Increases. As noted previously, tuition has recently risen sharply. In 2002, tuition rose 6.4 percent from the previous year, so it is unlikely that the Department met our target increase for 2003 of 3 percent. FY 2003 data will be available in December 2003.

Unmet Need. The Department's measure of unmet need is derived from students who receive aid and is assessed only every four years. Thus, no data are expected for this measure in FY 2003, and the Department plans to discontinue this measure in 2005.

Borrower Indebtedness. Similar to unmet need, no data are expected for this measure for FY 2003, and the Department plans to discontinue this measure in 2005.

Objective 5.4 HBCUs, HSIs, and TCUs

Measures	FY 2003	FY 2002
Positive Fiscal Balance	P	R
Technological Capacity	NC	NC

See page 30 for the color score explanation.

Positive Fiscal Balance. The percentage of HBCUs, HSIs, and TCUs with a positive fiscal balance has remained at approximately 70 percent in the past few years. Given that the Department did not meet our 2002 target of 74 percent, it may be difficult to meet the 2003 target of 79 percent. FY 2003 data will be available in September 2004.

Technological Capacity. Data for this measure are incomplete and not expected. The Department is discontinuing this measure for FY 2005.

Objective 5.5 Literacy and Employment Skills of American Adults

Measure	FY 2003	FY 2002
Employment Outcomes	P	R

See page 30 for the color score explanation.

Employment Outcomes. The VR Employment Rate describes the percentage of individuals who achieve employment outcomes after receiving services from a state VR agency. The 2002 target for increasing the percentage of individuals with disabilities served by the VR program who obtain employment was not met. The percentage increased gradually from 60.4 percent in FY 1996 to 62.5 percent in FY 2000. However, in FY 2001, the percentage began to decrease. This decrease is believed to be because of the weak economy and because individuals placed in extended employment are no longer considered to have achieved an employment outcome under this program. FY 2003 data will be available in April 2004.

Programs Supporting Goal 5

Program Name	Budget† FY 2003 $ in millions	Expenditures†† FY 2003 $ in millions	Program Performance Targets FY 2003 % Met	FY 2003 % Not Met	FY 2003 % No Data	FY 2002 % Met	FY 2002 % Not Met	FY 2002 % No Data
AEFLA: Adult Education State Grants	580	592	0	0	100	60	40	0
AEFLA: Adult Education National Leadership Activities	12	10	★					
AEFLA: National Institute for Literacy	7	6	★					
ATA: Assistive Technology	27	1	0	0	100	0	0	100
DOEAA GPRA Data/HEA Program Evaluation	1	1	★					
EDA: Gallaudet University	98	98	17	25	58	33	67	0
EDA: National Technical Institute for the Deaf	54	53	10	20	70	60	30	10
ESEA: Community Technology Centers (FIE)	34	38	0	0	100	◆		
HEA: AID—Developing Hispanic-Serving Institutions	96	74	0	0	100	0	0	100
HEA: AID—Minority Science and Engineering Improvement	11	8						
HEA: AID—Strengthening Alaska Native and Native Hawaiian Serving Institutions	9	7						
HEA: AID—Strengthening Historically Black Colleges and Universities	216	196						
HEA: AID—Strengthening Historically Black Graduate Institutions	54	43						
HEA: AID—Strengthening Institutions (Part A)	86	70						
HEA: AID—Strengthening Tribally Controlled Colleges & Universities	23	18						
HEA: B. J. Stupak Olympic Scholarships	1	0.2	★					
HEA: Byrd Honors Scholarships	41	38	0	0	100	0	100	0
HEA: Child Care Access Means Parents In School	16	19	0	0	100	★		
HEA: College Assistance Migrant Program	16	14	★					
HEA: Demonstration Projects to Ensure Quality Higher Education for Students with Disabilities	7	6	★					
HEA: Federal TRIO programs—Educational Opportunity Centers	49		◆					
HEA: Federal TRIO programs—McNair Postbaccalaureate Achievement	43		0	0	100	0	0	100
HEA: Federal TRIO programs—Student Support Services	269	768	0	0	100	0	0	100
HEA: Federal TRIO programs—Talent Search	148		◆					
HEA: Federal TRIO programs—Upward Bound	319		0	0	100	0	0	100
HEA: Federal TRIO programs—Other	17		★					
HEA: Fund for the Improvement of Postsecondary Education	179	154	0	0	100	50	50	0
HEA: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)	297	269	0	0	100	◆		
HEA: Graduate Assistance in Areas of National Need (GAANN)	33	28	0	0	100	0	0	100
HEA: Historically Black College and University (HBCU) Capital Financing—Federal Administration	0.2	0.1	★					
HEA: Interest Subsidy Grants	3	2	★					
HEA: International Education and Foreign Language Studies—Domestic Programs	100	84	0	0	100	0	0	100
HEA: International Education and Foreign Language Studies—Institute for International Public Policy	2	2	100	0	0	0	0	100
HEA: Javits Fellowships	12	9	0	0	100	★		

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† Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

†† Expenditures occur when recipients draw down funds to cover actual outlays. FY 2003 expenditures may include funds from prior years' appropriations.

★ Denotes programs with funding below $20 million without targets—the Department prioritized setting targets for programs over $20 million.

◆ Denotes programs over $20 million without targets.

/// Denotes programs not yet implemented. (Programs are often implemented near the end of the first year they are funded.)

AEFLA = Adult Education and Family Literacy Act
ATA = Assistive Technology Act
EDA = Education of the Deaf Act
HEA = Higher Education Act

ESEA = Elementary and Secondary Education Act
DOEAA = Department of Education Appropriations Act
GPRA = Government Performance and Results Act
AID = Aid for Institutional Development

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Program Name	Budget†	Expenditures††	Program Performance Targets					
Programs Supporting Goal 5 (con't)	FY 2003 $ in millions	FY 2003 $ in millions	FY 2003			FY 2002		
			% Met	% Not Met	% No Data	% Met	% Not Met	% No Data
HEA/DEOA: SFA—Student Aid Administration	105	273						
HEA: SFA—College Housing and Academic Facilities Loans (CHAFL) Federal Administration	‡ -35	-1						
HEA: SFA—Federal Direct Student Loans	‡ 4,629	5,084						
HEA: SFA—Federal Family Education Loan Program & Liquidating	‡ 2,549	2,574						
HEA: SFA—Federal Pell Grants	11,487	12,131	0	0	100	0	0	100
HEA: SFA—Federal Perkins Loans	133	163						
HEA: SFA—Federal Supplemental Educational Opportunity Grants	788	733						
HEA: SFA—Federal Work-Study	1,031	1,012						
HEA: SFA—Leveraging Educational Assistance Partnerships	70	66						
HEA: SFA—Loan Forgiveness for Child Care Providers	1	0						
HEA: Thurgood Marshall Legal Education Opportunity Program	5	4	★					
HEA: Underground Railroad Program	2	2	★					
HKNCA: Helen Keller National Center for Deaf-Blind Youths and Adults	9	9	★			0	0	100
Howard University	239	238	0	0	100	75	25	0
MECEA: International Education and Foreign Language Studies—Overseas Programs	17	10	★					
NLA: Literacy Programs for Prisoners	5	4	★					
RA: Client Assistance State Grants	13	12	★					
RA: Evaluation	1	1	★					
RA: Independent Living—Centers	71	61	0	0	100	100	0	0
RA: Independent Living—Services for Older Blind Individuals	30	27	0	0	100	0	0	100
RA: Independent Living—State Grants	24	22	0	0	100	67	33	0
RA: Migrant and Seasonal Farmworkers Program	3	2	★					
RA: Projects with Industry Program (PWI)	23	20	0	0	100	100	0	0
RA: Protection and Advocacy	18	16	★					
RA: Supported Employment	38	38	0	0	100	0	0	100
RA: Vocational Rehabilitation Demonstration and Training Programs	24	20	0	0	100	0	0	100
RA: Vocational Rehabilitation Program Improvement	1	1	★					
RA: Vocational Rehabilitation Recreational Program	3	3	★					
RA: Vocational Rehabilitation State Grants—Grants for Indians	30	27	0	0	100	100	0	0
RA: Vocational Rehabilitation State Grants—Grants to States	2,531	2,604	0	0	100	0	33	67
RA: Vocational Rehabilitation Training	44	41	0	0	100	15	15	70
VTEA: Tribally Controlled Postsecondary Vocational and Technical Institute	7	6	100	0	0	0	100	0
Total	26,756	27,811						

† Budget for each program includes program budget authority and the program's proportional share of salaries and expenses budget authority.

†† Expenditures occur when recipients draw down funds to cover actual outlays. FY 2003 expenditures may include funds from prior years' appropriations.

‡ Net budget authority as estimated in February 2003.

★ Denotes programs with funding below $20 million without targets—the Department prioritized setting targets for programs over $20 million.

◆ Denotes programs over $20 million without targets.

/// Denotes programs not yet implemented. (Programs are often implemented near the end of the first year they are funded.)

HEA = Higher Education Act
SFA = Student Financial Assistance programs
HKNCA = Helen Keller National Center Act
MECEA = Mutual Educational and Cultural Exchange Act of 1961
NLA = National Literacy Act
RA = Rehabilitation Act
DEOA = Department of Education Organization Act
VTEA = Vocational and Technical Education Act

For programs with performance measures, program performance reports are available on the Web at http://www.ed.gov/about/reports/annual/2003report/index.html. Appendix C contains a sample program performance report.

Performance Details

Goal 6: Establish Management Excellence

DEPARTMENT OF ED
UNITED STATES OF A

> We cannot expect our schools to be accountable if we aren't accountable in Washington.
>
> *—Secretary Rod Paige*

Goal 6:

Establish Management Excellence

The Department of Education has undertaken sweeping management improvements to enhance its ability to focus on improving the quality of education for all Americans. Each of the governmentwide initiatives in the *President's Management Agenda* (PMA) is integrated into Goal 6 of the *Strategic Plan*. The Department's objectives for fiscal integrity, the management of human capital, the use of electronic government, and budget and performance integration represent the agency's plan for implementing the *PMA*. Department-specific management objectives include modernizing the Student Financial Assistance programs, leveraging the contributions of faith-based and community organizations (FBCOs), and earning the President's Quality Award.

The Department's One-ED plan is an integrated five-year human capital, strategic sourcing, and restructuring plan developed in 2002 and implemented throughout 2003. The One-ED strategic investment process analyzes and quantifies business functions to identify the potential for more efficient, accountable, and effective work processes.

While One-ED helps the agency reengineer specific work processes, improved financial data and internal controls reduce risk of fraud and abuse. Electronic applications improve performance by increasing our administrative efficiency and providing the agency's customers easier access to Department services. Each aspect of the *PMA* reinforces other management reforms to support improved performance of Department staff and of the financial investments we make in students, teachers, educational agencies, and communities.

Develop and Maintain Financial Integrity and Management and Internal Controls

Activities to improve financial integrity and internal controls are leading to timely and accurate financial information that is helping Department managers make programmatic and asset-related decisions.

The Department has exceeded the requirements of the Office of Management and Budget (OMB) for midyear financial statements. The Department produced all five statements midyear and submitted four of them to OMB, one more than required. While quarterly statements are a new OMB requirement, for internal management purposes the Department has implemented ***monthly*** financial statements and ***quarterly*** management reporting protocols, including *Fast Facts*, which includes grant and loan statistics, as well as other performance-based metrics. These reports allow the Department to better integrate critical financial data into short- and long-term decisions.

In FY 2003, these and other efforts resulted in the Department's second consecutive unqualified opinion, the third clean opinion in our history.

Improve the Strategic Management of the Department's Human Capital

The Department's human capital plan is an integral part of One-ED, the Department's plan to address human capital, competitive sourcing, and restructuring requirements. Taking into consideration projected retirements, business process improvements, restructuring, increased use of technology, and changing skill requirements, the plan is a framework for human capital improvements. Improved management of employee performance, raising skill levels, and improved Department leadership are three fundamental objectives. One-ED activities include in-depth analyses of work structuring and skill needs for specific business processes. Needs identified through One-ED reviews will be addressed through the competitive sourcing or reengineering of those discrete processes.

Skills gaps are also being addressed through training, as well as hiring. During the workforce recruitment planning process, Department offices assessed the skills

of their workforce. Future staff development programs will concentrate on the most critical skill areas. This year, all permanent employees received notice that they are strongly encouraged to have an Individual Development Plan that lists their developmental goals and the classes and other developmental activities they will undertake to gain the skills they need. A new mentoring program is one development opportunity available to employees.

Manage Information Technology Resources, Using E-gov, to Improve Services for Our Customers and Partners

The Department is leveraging information technology (IT) to improve the efficiency of its business functions to better serve internal and external customers. One such effort is the governmentwide GovLoans initiative. GovLoans focuses on educating citizens about the various federal loan programs and making improvements to back-office loan functions. The Department is also building other electronic solutions on the foundation of its enterprise architecture, which was refined this year. Using the refined enterprise architecture, the Department expanded public access to grants, loans, and research information through improvements in electronic transactions.

As the Department increases its use of IT solutions to reach both its internal and external customers, the Department has taken the necessary actions to maintain the confidentiality, privacy, and integrity of the data being collected. The Department's certification and accreditation process tests for baseline security requirements and identifies risk areas. This information is used to help ensure that the Department's systems and applications are adequately protected. The certification and accreditation effort has led to a cascade of IT security improvements throughout the Department. The Department has a much better understanding of its business functions, its overall IT environment, and its enterprisewide IT security posture and, as a result, is more secure than it was even a year ago.

Modernize the Student Financial Assistance Programs and Reduce Their High-Risk Status

The Department's Office of Federal Student Aid (FSA) is continuing to improve and integrate its financial and management information systems to manage the student aid programs effectively. As part of its FY 2003 planning process, FSA identified projects and activities that furthered its efforts to integrate and improve its systems. Projects included in the FY 2003

Annual Plan delivered the most visible and direct impact for students, schools, and financial partners.

The work of the Department and FSA resulted in each receiving an unqualified audit opinion on its FY 2003 financial statements. This accomplishment is critical to FSA's efforts to be removed from the General Accounting Office (GAO) High-Risk List. More important, it reassures taxpayers that the Department and FSA are wisely managing resources in the delivery of federal student aid.

Achieve Budget and Performance Integration to Link Funding Decisions to Results

The President's FY 2005 Budget will be the second year of budget and performance integration. Like the FY 2004 budget, the FY 2005 budget will be based, to the extent possible, on program performance and strategic objectives. FY 2005 marks the first year that the Department's Budget and Annual Plan were completed together. Attention to improvements in performance information, as reflected both in plans for collecting the information for the first time and in ongoing data collection and analyses, is expanding as a result of the Program Assessment Rating Tool (PART) reviews, Government Performance and Results Act improvements, and increased legislative accountability provisions.

The Department's budget and performance integration efforts this year included increased efforts to document the effectiveness of the 165 programs that the Department funds. The Department reviewed all program performance measures and began systematically revising performance measures so that they meet the PART standards for quality long-term, annual, and efficiency measures. PART analyses are complete for 33 programs, accounting for the majority of the Department's annual budget authority.

To help measure the results of the Department's elementary and secondary education policy and programs, including the implementation of NCLB, the agency is developing a Performance-Based Data Management system. When fully implemented, the system will be the central source for data on the Department's K–12 formula grants programs. The Department is aligning the budget and planning process and using performance information for decision making and management. The Department's program management and policy planning reflect PART analyses and other performance information. Performance information will be reflected in the Department's Congressional Justifications supporting the FY 2005 President's Budget.

Leverage the Contributions of Faith-Based and Community Organizations to Increase the Effectiveness of Department Programs

The Department has taken significant steps to ensure that FBCOs actively participate in those Department programs for which they are eligible. All Department grant announcements made in FY 2003, for programs open by law to FBCO participation, contain a clear statement that FBCOs are eligible to apply on the same terms as other organizations. The Department has also included novice applicant priority in all eligible grant programs and has provided the novice applicants with technical assistance so they can submit quality applications. The novice applicant priority makes it easier for organizations that have not received federal funds to apply for and receive funding.

The Department's technical assistance and outreach efforts included announcing all grant competitions on its Web site and the White House Web site and emailing the announcements to its database of FBCOs. The Department also developed a user-friendly toolkit and Webcast on how to become an effective provider of supplemental educational services under NCLB.

By Becoming a High-Performance Customer-Focused Organization, Earn the President's Quality Award

The President's Quality Award Program is designed to recognize federal organizations that have documented high-performance management systems and approaches that address the objectives of *PMA*. The Department submitted three FY 2003 applications for the President's Quality Award on September 5, 2003. The Department's applications were submitted in the categories of information technology, competitive sourcing, and financial management.

Secretary Paige has made improving the management of the Department a top priority. He strongly believes that a better-managed Department not only is what the taxpayer deserves but also furthers the efforts of NCLB. The *PMA* provided the framework for the achievements and results that the Department has accomplished not only in e-government, competitive sourcing, and financial performance but also in establishing management excellence throughout the Department.

Performance Measure Summary

The Department's 2003 Annual Plan set targets related to seven objectives for Goal 6. The following table reports our results for each objective; full information is provided in appendix A.

Goal 6	Establish Management Excellence Status of Performance Measures by Objective	
Objectives	**FY 2003**	**FY 2002**
Financial Integrity	G	G
Human Capital	G	G
Information Technology/E-Gov	G	G
Student Financial Assistance Programs	G	G
Budget and Performance Integration	P	Y
Faith-Based and Community Organizations	G	G
President's Quality Award	G	G

See page 30 for the color score explanation

This chart reflects the status of the Department's performance on its Goal 6 performance measures. The chart does not reflect the Department's status in meeting the President's Management Agenda; that status can be found on page 27.

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Financial Integrity. An annual audit by an independent auditing firm is a measure of the quality of the Department's financial information. If the auditor is confident that the financial statements are a fair representation of the Department's financial position, then an unqualified opinion is issued. Achieving this target is a significant accomplishment. The Department obtained its second consecutive unqualified audit opinion for FY 2003.

The Department's second unqualified audit opinion is attributable to the continued improvements that have been made to the financial processes:

- Cash and loan account reconciliations have been significantly improved.
- The Department's Oracle general ledger system has been fully implemented.
- Financial reporting related to credit reform has been improved.
- Data mining techniques (an analysis of existing data to identify patterns) have been enhanced to identify duplicate and improper payments.

These improvements and others will continue to increase the quality and timeliness of data for decision making.

Human Capital Management. The new Education Department Performance Appraisal System (EDPAS) was successfully implemented and contains documented ratings of record for 86 percent of employees. EDPAS ratings are more directly linked to measurable performance outcomes for each employee than ratings under the prior system. Virtually all performance awards went to employees with ratings in the top three performance levels. Most employees with less than fully satisfactory ratings have improvement activities underway.

Using an agencywide template for workforce analysis and recruitment planning, the Department's offices completed plans that identify mission-critical and leadership positions and a course of action for replacing staff that leave.

In FY 2003, using the strategic investment process established under One-ED, the Department competed work representing 25.4 percent of the 2000 Fair Act Inventory Full-Time Equivalents (FTEs), exceeding its target for competitive sourcing. One-ED strategic investment process reviews provide information on skills gaps in the Department's workforce, leading to better-targeted staff training. The reviews use activity-based costing to establish the current costs to conduct each activity, helping the agency identify inefficiencies and improve financial performance. As a result, in those instances where the Department determines that additional efficiencies will be gained from competing an activity, the business function is ready for competition. When the business functions are competed, Department employees propose the implementation of process improvement ideas originated by the One-ED reviews. In those instances where the Department determines that the business function is not eligible for competition because the function is inherently governmental or core to the work of the Department, the function is reengineered in-house using the process improvement ideas generated by the One-ED reviews. These process improvements often employ new technology solutions, contributing to the Department's e-government activities.

E-Government. All of the Department's Title IV loan programs provide online capability. In addition, 57 percent of the Department's FY 2003 grant competitions provided the capability for applicants to submit electronic applications using the Department's e-Application system. The Department is committed to ensuring that these systems and others being used at the Department are secure. The Department has already successfully completed certification and accreditation of 10 systems. The Department expects to complete the certification and accreditation for all Tier 3 and Tier 4 major applications by December 31, 2003, and all Tier 1 and Tier 2 general support systems by December 31, 2004.

The Department also monitors the development of all electronic systems to ensure that they are adhering to projected costs and schedules. As a part of the IT investment management process, project managers provide cost and schedule information for their development milestones and operational expenditures. The project managers formulate estimates of remaining work based on actual costs to date, the percentage-of-milestones-complete, their own knowledge of the initiative, and contractor feedback where applicable. During FY 2003, the Department instituted a process to manage changes to cost and schedule milestones. Project managers' requests to modify a baseline are considered and approved or rejected by the Planning and Investment Review Group Leadership Team (PIRWG LT).

Modernize Student Financial Assistance Programs and Reduce Risk. The Department and FSA each received an unqualified opinion for FY 2003. Clean opinions are important in the Department's efforts toward creating a permanent culture of accountability and critical to FSA's efforts to be removed from the GAO High-Risk List.

The FY 2003 clean opinion is attributable to FSA's efforts to consistently reconcile FSA program accounts to supporting detail within 30 days of month-end close. Reconciliation and systems balancing are the primary assurance tools used to detect and correct errors. FSA has also made considerable progress in furthering its integration goals, including the following:

- Enhancing Forms 2000 to improve data accuracy and to facilitate the systems' monthly reconciliation to the Department's General Ledger.
- Retiring the Recipient Financial Management System (RFMS) and Direct Loan Origination System (DLOS) that contained the origination and disbursement functionality for Pell and Direct Loan Programs respectively and that now are captured in the Common Origination and Disbursement (COD) system.
- Stabilizing the Lender Application Process (LAP) and Lender Reporting System (LaRS) through deploying the lender payment portion of the system as well as automating the lock box process and providing help desk support.

- Implementing an electronic audits and financial statements (ezAudit) system that will permit the electronic submission and capture of audit information.
- Initiating a competitive procurement for Common Services for Borrowers (CSB), an integrated solution for servicing, consolidation, and collections functions for federal student aid obligations that will yield significant cost savings, customer service improvements, and business process improvements.

Also in FY 2003, FSA began defining a comprehensive Enterprise Data Strategy and implementation approach to address the business flow of data across the enterprise, data structure and architecture, primary ownership, standards, management, access methods, and quality and integrity. The Enterprise Data Strategy also includes implementation and sequencing plans that will define the work and the ordering of the work to fully implement all elements of the data strategy over the next several years, including the alignment of those systems that are remaining candidates for reengineering and business process integration. The Enterprise Data Strategy will be completed in November 2003.

Budget and Performance Integration. In FY 2003, the Department of Education and OMB completed PART analyses on 15 programs in conjunction with the formulation of the President's FY 2005 Budget. Four programs analyzed last year were reviewed again this year. The total number of programs with PART assessments is now 33, representing the majority of the Department's annual budget authority. At the time of the FY 2002 PART reviews, the Department had sufficient performance information to demonstrate the effectiveness of only 22 percent of the programs that underwent PART reviews. Because effectiveness was demonstrated for the multibillion-dollar Pell Grant program, however, 46 percent of reviewed program dollars are associated with programs that demonstrated effectiveness. At this time, data are pending for the percentage of programs and associated dollars with demonstrated effectiveness in FY 2003. A potential challenge to meeting the Department's FY 2003 program effectiveness targets is that many programs had no available performance information at the time of their FY 2003 PART reviews. NCLB made significant changes to most of the elementary and secondary education programs. FY 2002 was the first year of implementation of the new programs and new strategies for state formula grants. Local programs receiving assistance from states have not completed their first year of operations under the NCLB law. Major improvements in the collection of performance information will become evident over the next two years as data on the first year of full implementation of NCLB become available.

Leveraging Faith-Based and Community Organizations. Novice applicant reform was implemented in each Department grant program open to Faith-Based and Community Organizations (FBCOs):

- Community Technology Centers.
- Carol M. White Physical Education.
- Early Reading First.
- Parental Information and Resource Centers.

President's Quality Award. The Department submitted three applications for the President's Quality Award on September 5, 2003. The Department's applications were based on the improvements made in e-government, competitive sourcing, and financial performance. The Department will use insights gained from the application and selection processes to improve its efforts in 2004.

Evaluation of FY 2004 Annual Plan

Evaluation of FY 2004 Annual Plan

A review of our *FY 2004 Annual Plan* in light of our performance results for FY 2003 revealed that the Department is well into carrying out our *Strategic Plan 2002–2007*. We are as committed to our six strategic goals as we were when they were published. With No Child Left Behind beginning its second year of implementation, we are beginning to be able to judge results on many important measures, and we see encouraging progress.

A review of the *FY 2004 Annual Plan* does indicate that we should consider the following revisions:

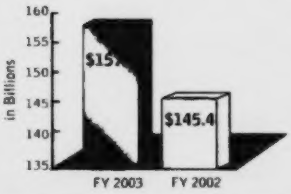
- Discontinue measure 1.3.1, the percentage of parents who report having the information they need to determine the effectiveness of a child's school, because we have no source of data.
- Revise our target for measure 1.2.3, the OMB burden-hour estimates of Department program data collections per year, because we anticipate that increasing numbers of loan applications will result in increased burden hours for existing collections.
- Discontinue measure 3.2.1, the percentage of students in grade 12 who participated in community service or volunteer work, because we have no source of data.
- Discontinue measures 5.3.2–5.3.4, unmet need (for college expenses) as a percentage of cost of attendance for dependent students and for independent students with and without children, because we have no source of data.
- Discontinue measure 5.3.5, borrower indebtedness (expressed as average borrower payments) for federal student loans as a percentage of borrower income, because the banking community no longer uses this as a barometer for an acceptable level of debt. We will seek a measure that is more compatible with the banking community's "credit scoring" approach.
- Discontinue measure 5.4.2, the percentage of HBCUs, HSIs, and TCUs with evidence of increased technological capacity, because we have no source of data.
- Discontinue measure 6.1.2, the financial management grade received on the "report card" issued by the House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, because the Subcommittee is no longer issuing the report card.

Financial Details

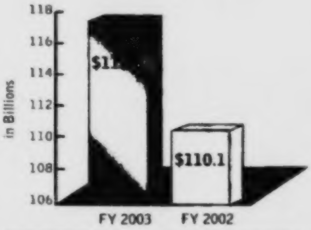
Financial Summary

(Dollars in Millions)	FY 2003	FY 2002	% Change 2003 over 2002
At End of Year			
Condensed Balance Sheet Data			
Fund Balance with Treasury	$ 57,907.7	$ 52,116.5	+11%
Credit Program Receivables	97,965.3	91,706.1	+7%
Accounts Receivable	182.8	264.2	-31%
Other	1,202.0	1,280.2	-6%
Total Assets	$157,257.8	$145,367.0	+8%
Treasury Debt for Loan Program	$ 92,017.7	$ 89,782.1	+2%
Other Intragovernmental Liabilities	8,249.5	6,088.6	+35%
Liabilities for Loan Guarantees	15,431.7	11,679.4	+32%
Other Liabilities	2,124.1	2,534.1	-16%
Total Liabilities	117,823.0	110,084.2	+7%
Unexpended Appropriations	43,931.3	39,121.2	+12%
Cumulative Results of Operations	(4,496.6)	(3,838.4)	+17%
Total Net Position	39,434.7	35,282.8	+12%
Total Liabilities and Net Position	$157,257.8	$145,367.0	+8%
Full-Time Equivalents			
Office of Postsecondary Education	227.0	227.7	- 0%
Office of Federal Student Aid	1,095.4	1,155.5	-5%
Office of Elementary & Secondary Education	222.2	257.2	-14%
Office of English Language Acquisition	45.4	47.1	-4%
Office of Special Ed & Rehab Services	356.4	362.0	-2%
Office of Vocational & Adult Education	116.2	118.0	-2%
Institute of Education Sciences	238.8	294.6	-19%
Office of Innovation and Improvement	60.3	-	NEW in FY03
Office of Safe and Drug-Free Schools	32.8	-	NEW in FY03
National Assessment Governing Board	12.4	13.0	-5%
National Institute for Literacy	14.5	14.7	-1%
Subtotal	2,421.4	2,489.8	-3%
Administrative	1,104.5	1,076.5	+3%
Office for Civil Rights	672.2	698.1	-4%
Office of Inspector General	280.9	275.9	+2%
Total	4,479.0	4,540.3	-1%
For the Year			
Statement of Net Cost			
Total Cost	$ 65,326.6	$ 55,923.0	+17%
Earned Revenue	(6,522.7)	(6,157.3)	+6%
Total Net Cost of Operations	$ 58,803.9	$ 49,765.7	+18%
Net Cost by Strategic Goal	FY 2003	%	
Goal 2	$ 29,678.8	50.47%	
Goal 3	775.7	1.32%	
Goal 4	491.0	0.83%	
Goal 5	27,858.4	47.38%	
	$ 58,803.9		

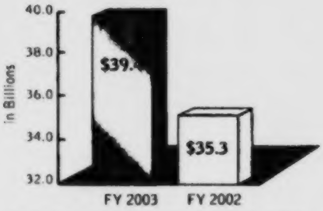
Total Assets



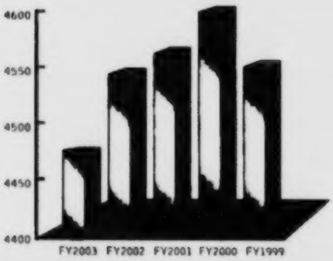
Total Liabilities



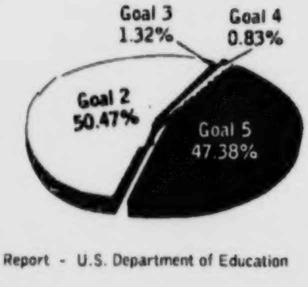
Net Position



Full-Time Equivalents



Net Cost By Strategic Goal



From the Chief Financial Officer

The Department recognizes the importance of public disclosure and accountability. This report is a demonstration of our commitment to fulfill our fiduciary responsibilities to the American taxpayer.

I am pleased to present the U.S. Department of Education's financial statements for FY 2003. For the second consecutive year, our independent public accounting firm, Ernst & Young, LLP, selected by our Inspector General issued an unqualified ("clean") opinion on the Department's consolidated financial statements. This is the best possible audit result.

The FY 2003 internal control report identifies no material weaknesses and two reportable conditions. The Department will take actions to correct these conditions in an expeditious manner.

These financial statements fairly present the Department's financial position and were prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America and Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements."

Jack Martin

Jack Martin

November 13, 2003

Limitations of Financial Statements

The following limitations apply to the preparation of the fiscal year 2003 Financial Statements:

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). Although the statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Principal Financial Statements

United States Department of Education
Consolidated Balance Sheet
As of September 30, 2003 and 2002

(Dollars in Thousands)

	Fiscal Year 2003	Fiscal Year 2002
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 57,907,733	$ 52,116,459
Accounts Receivable (Note 5)	3,523	75,950
Other Intragovernmental Assets	27,379	
Total Intragovernmental	57,938,635	52,192,409
Cash and Other Monetary Assets (Note 3)	1,107,533	1,204,575
Accounts Receivable, Net (Note 5)	179,232	188,207
Credit Program Receivables, Net (Note 4)	97,965,279	91,706,146
General Property, Plant and Equipment, Net (Note 6)	28,255	36,915
Other Assets	38,816	38,737
Total Assets	$157,257,750	$145,366,989
Liabilities:		
Intragovernmental:		
Accounts Payable	$ 14,126	$ 20,403
Treasury Debt (Note 7)	92,017,728	89,782,147
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 3)	1,107,481	1,169,107
Payable to Treasury (Note 8)	7,022,995	4,713,206
Other Intragovernmental Liabilities (Note 9)	104,870	185,913
Total Intragovernmental	100,267,200	95,870,776
Accounts Payable	285,824	329,839
Accrued Grant Liability (Note 11)	1,366,498	1,721,277
Liabilities for Loan Guarantees (Note 4)	15,431,715	11,679,393
Federal Employee and Veterans' Benefits	22,265	21,664
Other Liabilities (Note 9)	449,505	461,274
Total Liabilities	$117,823,007	$110,084,223
Commitments and Contingencies (Note 19)		
Net Position:		
Unexpended Appropriations (Note 12)	$ 43,931,317	$ 39,121,204
Cumulative Results of Operations (Note 12)	(4,496,574)	(3,838,438)
Total Net Position	$ 39,434,743	$ 35,282,766
Total Liabilities and Net Position	$157,257,750	$145,366,989

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Net Cost
For the Years Ended September 30, 2003 and 2002

(Dollars in Thousands)

	Fiscal Year 2003	Fiscal Year 2002
Program Costs		
Program A (Enhancement of Postsecondary and Adult Education)		
Intragovernmental Gross Costs	$ 6,625,525	$ 6,325,072
Less: Intragovernmental Earned Revenue	1,534,678	1,387,782
Intragovernmental Net Costs	5,090,847	4,937,290
Gross Costs with the Public	26,060,455	22,155,653
Less: Earned Revenues from the Public	4,971,611	4,763,806
Net Costs with the Public	21,088,844	17,391,847
Program A Total Net Cost	$26,179,691	$22,329,137
Program B (Creation of Student Achievement, Culture of Achievement and Safe Schools)		
Intragovernmental Gross Costs	$ 151,797	$ 222,063
Less: Intragovernmental Earned Revenue	8,406	
Intragovernmental Net Costs	143,391	222,063
Gross Costs with the Public	20,127,851	16,478,499
Less: Earned Revenues from the Public	8	159
Net Costs with the Public	20,127,843	16,478,340
Program B Total Net Cost	$20,271,234	$16,700,403
Program C (Transformation of Education)		
Intragovernmental Gross Costs	$ 31,497	$ 27,501
Less: Intragovernmental Earned Revenue	5,975	
Intragovernmental Net Costs	25,522	27,501
Gross Costs with the Public	632,481	674,970
Less: Earned Revenues from the Public	21	1,284
Net Costs with the Public	632,460	673,686
Program C Total Net Cost	$ 657,982	$ 701,187
Program D (Special Education and Program Execution)		
Intragovernmental Gross Costs	$ 19,294	$ 17,667
Less: Intragovernmental Earned Revenue	1,974	2,483
Intragovernmental Net Costs	17,320	15,184
Gross Costs with the Public	11,677,683	10,021,576
Less: Earned Revenues from the Public	5	1,810
Net Costs with the Public	11,677,678	10,019,766
Program D Total Net Cost	$11,694,998	$10,034,950
Total Program Net Costs	$58,803,905	$49,765,677
Net Cost of Operations (Note 17)	$58,803,905	$49,765,677

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2003 and 2002

(Dollars in Thousands)

	Fiscal Year 2003		Fiscal Year 2002	
	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations
Beginning Balance	$ (3,838,438)	$39,121,204	$ (2,039,931)	$30,691,818
Prior Period Adjustments		27,569		
Beginning Balance, As Adjusted	$ (3,838,438)	$39,148,773	$ (2,039,931)	$30,691,818
Budgetary Financing Sources				
Appropriations Received		$67,792,467		$57,087,703
Appropriations Transferred - In/Out (+/-)		(1)		(500)
Other Adjustments (+/-)		(1,049,180)		(198,500)
Appropriations Used	$ 61,960,742	(61,960,742)	$ 48,463,506	(48,459,317)
Donations/Forfeitures of Cash	155		485	
Nonexpenditure Financing Sources - Transfers-Out	(4,439)			
Other Financing Sources				
Transfers - in/out Without Reimbursement	(27)		(27)	
Imputed Financing (Note 14)	29,979		23,750	
Adjustments to Financing Sources (+/-)	(3,840,641)		(520,544)	
Total Financing Sources	$ 58,145,769	$ 4,782,544	$ 47,967,170	$ 8,429,386
Net Cost of Operations (+/-)	$(58,803,905)		$(49,765,677)	
Ending Balances (Note 12)	$ (4,496,574)	$43,931,317	$ (3,838,438)	$39,121,204

The accompanying notes are an integral part of these statements.

United States Department of Education
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2003 and 2002

(Dollars in Thousands)

	Fiscal Year 2003		Fiscal Year 2002	
Budgetary Resources:	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budget Authority :				
Appropriations Received	$67,776,620	$ 16,002	$57,086,247	$ 1,941
Borrowing Authority		21,766,323		22,045,839
Net Transfers	(1)		(500)	
Other				
Unobligated Balance:				
Beginning of Period	4,681,941	7,804,640	2,643,777	5,094,963
Beginning of Period Adjustments (Note 15)			2,462,445	
Net Transfers, Actual (+/-)			887	
Spending Authority From Offsetting Collections:				
Earned				
Collected	5,387,537	32,977,501	2,571,029	22,634,614
Receivable From Federal Sources	(70,376)	117	67,491	(57)
Change in Unfilled Customer Orders				
Advance received (Collected)	55,386			
Without advance from Federal Sources	75,636			
Subtotal	$ 5,448,183	$32,977,618	$ 2,638,520	$22,634,557
Recoveries of Prior Year Obligations	1,277,066	268,890	837,093	22,042
Permanently Not Available	(6,224,859)	(17,469,952)	(2,719,035)	(8,325,714)
Total Budgetary Resources (Note 15)	$72,958,950	$45,363,521	$62,949,434	$41,473,628
Status of Budgetary Resources:				
Obligations Incurred: (Note 15)				
Direct	$67,548,974	$35,597,145	$58,196,677	$33,668,988
Reimbursable	82,414		70,814	
Subtotal	$67,631,388	$35,597,145	$58,267,491	$33,668,988
Unobligated Balance:				
Apportioned	2,981,165	395,950	3,091,706	1,119,601
Unobligated Balance Not Available	2,346,397	9,370,426	1,590,237	6,685,039
Total Status of Budgetary Resources	$72,958,950	$45,363,521	$62,949,434	$41,473,628
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	$38,961,452	$ 6,811,613	$30,468,796	$ 5,618,208
Obligated Balance, Net, End of Period:				
Accounts Receivable	(3,468)	(117)	(73,845)	
Unfilled customer orders from Federal Sources	(75,636)			
Undelivered Orders	40,744,171	8,382,449	36,689,040	6,802,243
Accounts Payable	1,754,967	16,338	2,346,257	9,370
Outlays:				
Disbursements	62,890,477	33,741,080	48,870,249	32,453,597
Collections	(5,442,922)	(32,977,501)	(2,571,029)	(22,634,614)
Subtotal	$57,447,555	$ 763,579	$46,299,220	$ 9,818,983
Less: Offsetting Receipts	43,599		39,068	
Net Outlays (Note 15)	$57,403,956	$ 763,579	$46,260,152	$ 9,818,983

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Financing
For the Years Ended September 30, 2003 and 2002

(Dollars in Thousands)

	Fiscal Year 2003	Fiscal Year 2002
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred (Note 15)	$(103,228,533)	$(91,936,479)
Less: Spending Authority from Offsetting Collections & Recoveries	39,971,757	26,132,212
Obligations Net of Offsetting Collections and Recoveries	(63,256,776)	(65,804,267)
Less: Offsetting Receipts	(43,599)	(39,068)
Net Obligations	$ (63,300,375)	$(65,843,335)
Other Resources		
Transfers In/Out Without Reimbursement (+/-)	$ 27	$ 27
Imputed Financing From Costs Absorbed by Others (Note 14)	(29,979)	(23,750)
Net Other Resources Used to Finance Activities	(29,952)	(23,723)
Total Resources Used to Finance Activities	$ (63,330,327)	$(65,867,058)
Resources Used to Finance Items Not Part of Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	$ (5,250,604)	$ (9,937,029)
Resources that Fund Expenses Recognized in Prior Period	(1,257,797)	(45,245)
Credit Program Collections Which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	31,786,034	21,247,014
Other	(72,162)	72,162
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net in Current or Prior Period	(28,064,832)	(26,601,541)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (2,859,361)	$(15,264,639)
Total Resources Used to Finance the Net Cost of Operations	$ (60,470,966)	$(50,602,419)
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	$ (25,543)	$ (23,973)
Upward/Downward Reestimates of Credit Subsidy Expense	(1,317,771)	(1,796,889)
Increase in Exchange Revenue Receivable from the Public	1,087,940	1,127,116
Other (+/-)	(10,244)	4,478
Total Components of the Net Cost of Operations that Will Require or Generate Resourçes in Future Periods	$ (265,618)	$ (689,268)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	$ 1,932,938	$ 1,523,208
Other (+/-)	(259)	2,802
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	$ 1,932,679	$ 1,526,010
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	$ 1,667,061	$ 836,742
Net Cost of Operations (Note 17)	$ (58,803,905)	$(49,765,677)

The accompanying notes are an integral part of these statements.

Notes to Principal Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The U.S. Department of Education (the Department) was established on May 4, 1980, by Congress, under the Department of Education Organization Act of 1979 (Public Law 96-88). It is responsible, through the execution of its congressionally approved budget, for administering direct loans, guaranteed loans, and grant programs.

The Department's Federal Student Aid (FSA) administers the Federal Direct Student Loan Program, the Federal Family Education Loan (FFEL) Program, Pell Grants, and the Campus-Based Program. The Federal Direct Student Loan Program, authorized by the Student Loan Reform Act of 1993, makes loans directly to eligible undergraduate and graduate students and their parents through participating schools. The Federal Family Education Loan (FFEL) Program, authorized by the Higher Education Act of 1965 (HEA), as amended, cooperates with state and private non-profit Guaranty Agencies to provide loan guarantees and interest subsidies on loans made by private lenders to eligible students. The Pell Grant and Campus-Based Programs provide educational grants and other financial assistance to eligible applicants.

The Department also administers numerous Grant Programs and the Facilities Loan Program. Grant Programs include grants for elementary and secondary education, special education and rehabilitative services, and educational research and improvement, along with grants for needs of the disadvantaged. Through the Facilities Loan Program, the Department administers low-interest loans to institutions of higher learning for the construction and renovation of facilities.

Organization and Structure and Education

The statements consolidate 210 discrete appropriations comprising 59 fund accounts within the following eight reporting groups:

- Federal Student Aid (FSA)
- Office of Elementary and Secondary Education (OESE)
- Office of Special Education and Rehabilitative Services (OSERS)
- Office of Vocational and Adult Education (OVAE)
- Office of Postsecondary Education (OPE)
- Institute of Education Sciences (IES)
- Office of English Language Acquisition (OELA)
- Department Management (DM)

Basis of Accounting and Presentation

These consolidated financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the U.S. Department of Education, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements were prepared from the books and records of the Department, in accordance with accounting principles generally accepted (GAAP) in the United States of America and Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements." GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the federal government. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control the Department's use of budgetary resources.

The financial statements should be read with the realization they are a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Use of Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles in the United States requires management to make assumptions and estimates that directly affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Estimates for credit program receivables and liabilities contain assumptions that have a significant impact on the financial statements. The primary components of this assumption set include, but are not limited to, collections (including loan consolidations), repayments, default rates, prevailing interest rates and loan volume. Actual loan volume, interest rates, cash flows and other critical components used in the estimation process may differ significantly from the assumptions made at the time the financial statements were prepared. Minor adjustments to any of these assumption components may create significant changes to the estimate.

The Department recognizes the sensitivity of the changes in assumptions and the impact that the projections can have on estimates. Management has attempted to mitigate these fluctuations by using trend analysis to project future cash flows. The assumptions used for the September 30, 2003 and 2002 financial statements are based on the best information available at the time the estimate was derived.

Changes in assumptions could significantly affect the amounts reflected in these statements. For example, a long-term change in the projected interest rate charged to borrowers could change the current subsidy re-estimate by a significant amount.

The model and estimating methods used are updated periodically to reflect changing conditions. This model was the official estimating model of the Department as of September 30, 2003 and 2002, and was used to calculate the subsidy re-estimates recorded in these financial statements.

Budget Authority

Budget authority is the authorization provided by law for the Department to incur financial obligations that will result in outlays. The Department's budgetary resources for fiscal years 2003 and 2002 included (1) unobligated balances of resources from prior years, (2) recoveries of obligations in prior years, and (3) new resources—appropriations, authority to borrow from the U.S. Department of Treasury (Treasury), and spending authority from collections and certain collection-related activity. Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for net upward adjustments of prior-year obligations, after which they are canceled and may not be used. Unobligated balances of resources that have not expired at year-end may have new obligations placed against them, as well as net upward adjustments of prior-year obligations.

Treasury Debt provides most of the funding for the loan principal disbursements made under the Federal Direct Student Loan Program. Subsidy and administrative costs of the program are funded primarily by appropriations. Budgetary resources from collections are used primarily to repay the Department's debt to Treasury. Major sources of collections include (1) principal and interest collections from borrowers or through the consolidation of loans to borrowers, (2) related fees, and (3) interest from Treasury on balances in certain credit accounts that make and administer loans and guarantees.

Fund Balance with Treasury

The Department maintains cash accounts with Treasury. The fund balance with Treasury includes appropriated, revolving, and trust funds available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes the cash receipts and cash disbursements for the Department. The Department's records are reconciled with those of Treasury. (See Note 2.)

Cash and Other Monetary Assets

Cash and other monetary assets consist of guaranty agency reserves and deposits in transit. Guaranty agency reserves represent the Department's interest in the net assets of the FFEL program guaranty agencies. Guaranty agency reserves are classified as non-entity assets with the public (see Note 3) and are offset by a corresponding liability due to Treasury. Guaranty agency reserves include initial federal start-up funds (guaranty agency advances), receipts of federal reinsurance payments, insurance premiums, guaranty agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets purchased out of reserve funds.

Section 422A of the HEA of 1965, as amended, required FFEL Guaranty Agencies to establish a Federal Student Loan Reserve Fund (the "Federal Fund") and an Operating Fund by December 6, 1998. The Federal Fund and the non-liquid assets developed or purchased by a Guaranty Agency as a result, in whole or in part with federal funds, are the property of the United States. However, such ownership by the Department is independent of the actual control of the assets.

The Department disburses funds to the Guaranty Agency through the Federal Fund to pay lender claims and default aversion fees of a Guaranty Agency. The Operating Fund is the property of the Guaranty Agency except for funds an agency borrows from the Federal Fund (under Section 422A of the HEA of 1965, as amended). The Operating Fund is used by the Guaranty Agency to fulfill its responsibilities. These responsibilities include repaying money borrowed from the Federal Fund, default aversion and collection activities.

Accounts Receivable

Accounts receivable are amounts due to the Department from the public and other federal agencies. Receivables from the public typically result from such items as overpayments of educational assistance, whereas amounts due from other federal agencies result from agreements entered into by the Department with these agencies for various goods and services. Accounts receivable are recorded at cost less an allowance for uncollectible amounts. The estimate of the allowance for loss on uncollectible accounts is based on past experience in the collection of receivables and an analysis of the outstanding balances. (See Note 5.)

Credit Program Receivables and Loan Guarantee Liabilities

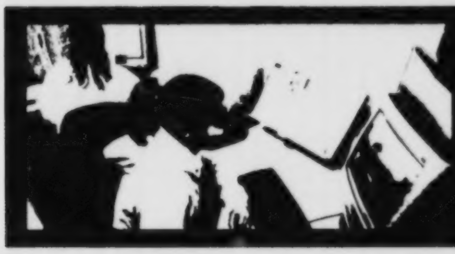
The financial statements at September 30, 2003 and 2002, reflect the Department's estimate of the long-term cost of direct and guaranteed loans in accordance with the Federal Credit Reform Act of 1990 (the Act). Loans and interest receivable are valued at their gross amounts less an allowance for the present value of the amounts not expected to be recovered and thus having to be subsidized—called "allowance for subsidy." The difference is the present value of the cash flows to and from the Department that are expected from the receivables over their expected lives. Similarly, loan guarantee liabilities are valued at the present value of the cash outflows from the Department less the present value of related inflows. GAAP allows direct loans and loan guarantees obligated prior to October 1, 1992, to be stated on a present value basis or on a net realizable or expected value basis. The Department has chosen to record all loans and guarantees at their present values.

Components of subsidy costs involved with loans and guarantees include defaults, net of recoveries, contractual payments to third-party private loan collectors who receive a set percentage of amounts they collect, and, as an offset, application and other fees to be collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from the Department of Treasury and interest rates charged to target groups is also subsidized (or may provide an offset to subsidy if the Department's rate is less). The corresponding interest subsidy in loan guarantee programs is the payment of interest supplements to third-party lenders in order to buy down the interest rates on loans made by those lenders. Subsidy costs are recognized when direct loans or guaranteed loans are disbursed to borrowers and are re-estimated each year. (See Note 4.)

General Property, Plant and Equipment

The Department capitalizes single items of property and equipment with an aggregate cost of $50,000 or more that have an estimated useful life greater than two years. Additionally, the Department capitalizes bulk purchases of property and equipment with an aggregate cost of $500,000 or more. A bulk purchase is defined as the purchase of like items related to a specific project or the purchase of like items occurring within the same fiscal year that have an estimated useful life greater than two years. Property and Equipment are depreciated over their estimated useful lives using the straight-line method of depreciation.

The Department adopted the following useful lives for the major classes of depreciable property and equipment:



Major Classes of Depreciable Property and Equipment	Years
Information Technology (IT) and Telecommunications equipment	3
Furniture and Fixtures	5

Leases

The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases. Future lease payments are not accrued as liabilities, but rather are expensed as incurred.

Estimated future minimum lease payments for privately owned buildings as of September 30, 2003 and September 30, 2002 are as follows:

2003 (Dollars in Thousands)	
Fiscal Year	**Lease Payment**
2004	$ 32,226
2005	47,033
2006	50,644
2007	54,688
2008	56,056
After 2008	57,457
Total	**$ 298,104**

2002 (Dollars in Thousands)	
Fiscal Year	**Lease Payment**
2003	$ 20,833
2004	34,474
2005	36,126
2006	37,029
2007	37,955
After 2007	38,904
Total	**$ 205,321**

Liabilities

Liabilities represent actual and estimated amounts likely to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without an appropriation or other collection of revenue for services provided. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources and there is no certainty the appropriation will be enacted. Liabilities of the Department arising from other than contracts can be abrogated by the government acting in its sovereign capacity. FFEL and Federal Direct Student Loan Program liabilities are entitlements covered by permanent indefinite budget authority enacted as of year-end.

Liabilities for Loan Guarantees

The liability for loan guarantees under FFEL is the estimated present value of net long-term cash outflows of the Department for subsidized costs—primarily defaults, net of recoveries, interest supplements, and, as an offset, fees. (See Note 4.)

Treasury Debt

The amount shown for the liability to Treasury from borrowings represents unpaid principal owing on the loans at year-end associated with the Department's student loan activities. The Department repays the loan principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury with such rates generally fixed based on the rate for 10-year securities. As discussed in Note 4, the interest received by the Department from borrowers will vary from the rate paid to the Treasury. Principal and interest payments are made annually. (See Note 7.)

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. A liability is accrued by the Department for expenditures incurred by grantees prior to receiving grant funds for the expenditures. The amount is estimated using statistical sampling techniques. (See Note 11.)

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances of appropriations, except those for federal credit financing and liquidating funds, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. (See Note 12.)

Personnel Compensation and Other Employee Benefits

Annual, Sick and Other Leave. The liability for annual leave, compensatory time off, and other leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Annual leave earned but not taken, within established limits, is funded from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

Retirement Plans and Other Employee Benefits. Employees participate either in the Civil Service Retirement System (CSRS), a defined benefit plan, or in the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, the Department contributes a fixed percentage of pay. For FERS employees, the Department contributes fixed percentages to both a defined benefits plan and a defined contributions plan (Thrift Savings Plan). For FERS employees, the Department also contributes the employer's share for Social Security (FICA) and Medicare.

The FERS program is fully funded by agency and worker contributions. Such contributions for other retirement plans and benefits are insufficient to fully fund the programs, which are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors OPM provides, and reports the full cost of the programs related to its employees. (See Note 14.)

Federal Employees Compensation Act. The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (Labor), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by Labor but not yet reimbursed by the Department. The Department reimburses Labor for the amount of actual claims as funds are appropriated for this purpose. There is generally a two to three year time period between payment by Labor and reimbursement to Labor by the Department. As a result, the Department recognizes a liability for the actual claims paid by Labor and to be reimbursed by the Department.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical and miscellaneous costs. Labor determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using OMB economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost of living adjustments) and medical inflation factors (i.e., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments and to adjust future benefit payments to current-year constant dollars. A discounting formula is also used to recognize the timing of benefit payments as 13 payments per year instead of one lump sum payment per year.

Labor evaluates the estimated projections to ensure that the resulting projections were reliable. The analysis includes two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Intragovernmental Transactions

The Department's financial activities interact and are dependent upon the financial activity of the centralized management functions of the federal government. The Department is subject to financial regulation and management control by OMB and Treasury. As a result of this relationship, operations may not be conducted and financial positions may not be reported as they would if the Department were a separate, unrelated entity. Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheet.

Other Assets

The other assets of $27.4 million represent interagency agreements between the Department and the National Science Foundation (NSF). These agreements were entered into prior to FY 2003 and were appropriately treated as an expense by the Department. During FY 2003, NSF informed the Department that $27.4 million was recorded on NSF's books as an "advance from others." This amount represents unexpended balances for interagency agreements with the Department. The Department began recording "advances to others" in order to facilitate the United States Financial Statement Consolidated Eliminations (for federal governmentwide financial statements) in FY 2003. Accordingly, the previous expense of $27.4 million associated with the NSF interagency agreements was reversed as a prior period adjustment and recorded as an "advance to others."

Note 2. Fund Balance with Treasury

Fund balance with Treasury at September 30, 2003 and 2002 consisted of the following:

(Dollars in Thousands)	2003	2002
Appropriated Funds	$ 46,636,660	$ 39,660,566
Revolving Funds	11,189,879	12,475,461
Trust Funds	266	328
Other Funds	80,928	(19,896)
Total Fund Balance with Treasury	$ 57,907,733	$ 52,116,459

Status of Fund Balance with Treasury

(Dollars in Thousands)	2003	2002
Unobligated Balance		
- Available	$ 3,377,114	$ 4,211,307
- Unavailable	10,609,342	7,106,166
Obligated Balance, Not Yet Disbursed	43,840,349	40,818,882
Other Funds	80,928	(19,896)
Total Status of Fund Balance with Treasury	$ 57,907,733	$ 52,116,459

Fund Balance with Treasury is an entity asset maintained with Treasury. The monies are available to pay current liabilities and finance loan programs. The Department has the authority to disburse funds to agencies and institutions participating in its programs through the Treasury, which processes cash receipts and disbursements on its behalf.

A portion of the appropriated funds included at September 30, 2003 and 2002, was funded in advance by multi-year appropriations for expenditures anticipated during the current and future fiscal years. Revolving funds conduct continuing cycles of business-like activity and do not require an annual appropriation. Their fund balance comes from collections from other federal entities, the public, and from borrowings.

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include reimbursements and other income earned, undelivered orders and expended authority-unpaid. Other funds primarily consist of suspense, deposit funds and clearing accounts.

Note 3. Cash and Other Monetary Assets

Cash and other monetary assets consisted of the following at September 30, 2003 and 2002:

	2003		
(Dollars in Thousands)	Guaranty Agency Reserves	Deposits in Transit	Total
Beginning Balance, September 30	$ 1,169,107	$ 35,468	$ 1,204,575
Current Year Activity	(61,626)	(35,416)	(97,042)
Ending Balance, September 30	$ 1,107,481	$ 52	$ 1,107,533

	2002		
(Dollars in Thousands)	Guaranty Agency Reserves	Deposits in Transit	Total
Beginning Balance, September 30	$ 2,462,445	$ -	$ 2,462,445
Current Year Activity	(208,606)	35,468	(173,138)
Funds Recall	(1,084,732)	-	(1,084,732)
Ending Balance, September 30	$ 1,169,107	$ 35,468	$ 1,204,575

Cash and Other Monetary Assets consist of Guaranty Agency reserves and deposits in transit. Guaranty Agency reserves are non-entity assets that the Guaranty Agencies collect and hold on behalf of the U.S. government. Additionally, Guaranty Agency reserves are a liability due to Treasury and are considered intragovernmental liabilities. These balances represent the federal government's interest in the net assets of state and non-profit FFEL Program Guaranty Agencies. (See Note 1.)

In FY 2002, Guaranty Agencies participating in the FFEL program returned to Treasury, through the Department, $1,085 million in federal assets. On September 30, 2003, Guaranty Agencies held approximately $1,107 million in federal assets. The agencies use the funds to pay lender claims, primarily for loan defaults and discharges; the funds are replenished by Department insurance payments to Guaranty Agencies. Consistent with Section 422A(e) of the HEA of 1965, these funds are considered "property of the United States" and are reflected in the president's budget.

Note 4. Credit Program Receivables and Liabilities for Loan Guarantees

The Department operates the William D. Ford Direct Student Loan and Federal Family Education Loan (FFEL) programs to help students finance the costs of higher education. Under the programs, the Department makes loans directly or guarantees all or a portion of loans made by participating lending institutions to individuals who meet statutorily set eligibility criteria and attend eligible institutions of higher education–public and private two- and four-year institutions, graduate schools, and vocational training schools. Students and their parents receive loans regardless of income; student borrowers who demonstrate financial need also receive federal interest subsidies.

Under the Direct Loan program, the federal government makes loans directly to students and parents through participating schools. Loans are originated and serviced through contracts with private vendors. Under the FFEL program, more than 4,000 financial institutions make loans directly to students and parents. FFEL loans are guaranteed by the federal government against default, with 36 state or private non-profit Guaranty Agencies acting as intermediaries in administering the guarantees. Beginning with loans first disbursed on or after October 1, 1993, financial institutions became responsible for 2 percent of the cost of each default; Guaranty Agencies also began paying a portion of the cost (in most cases, 5 percent) of each defaulted loan from federal funds they hold in trust. FFEL lender participants receive statutorily set federal interest and special allowance subsidies; Guaranty Agencies receive fee payments as set by statute. In most cases, loan terms and conditions under the two programs are identical.

The Federal Credit Reform Act of 1990 (the Act) underlies the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees, other than for general administration of the programs, is referred to as "subsidy cost." Under the Act, subsidy costs for loans obligated beginning in FY 1992 are the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are revalued annually through the re-estimate process.

The Department estimates all future cash flows associated with Direct Loans and FFEL. Projected cash flows are used to develop subsidy estimates. Subsidy costs can be positive or negative; negative subsidies occur when expected program inflows of cash (e.g., repayments and fees) exceed expected outflows. Subsidy is recorded as the initial amount of the loan guarantee liability when guarantees are made–the loan liability–and as a valuation allowance to government held loans and interest receivable (i.e., direct and defaulted guaranteed loans).

The Department uses a computerized cash flow projection model to calculate subsidy estimates for direct loans and guaranteed FFEL program loans. Cash flows are projected over the life of the loan, aggregated by loan type, cohort year, and risk category. The loan's cohort year represents the year a direct loan was obligated or a loan was guaranteed, regardless of the timing of disbursements. Risk categories include two-year colleges, freshmen and sophomores at four-year colleges, juniors and seniors at four-year colleges, graduate schools, and proprietary (for-profit) schools.

The estimates reflected in these statements were prepared using assumptions developed for the FY 2004 Mid-Session Review, a government-wide exercise required annually by the OMB. These estimates are the most current available to the Department at the time the financial statements are prepared. Department management has a process to review these estimates in the context of subsequent changes in assumptions, and reflect the impact of these changes as appropriate.

In recent years, the consolidation of existing loans into new direct or guaranteed loans has increased significantly. Under the Act and requirements provided by OMB Circular A-11 (Budget Formulation and Execution), the retirement of loans being consolidated is considered a receipt of principal and interest; this receipt is offset by the disbursement related to the newly created consolidation loan. The underlying direct or guaranteed loans, whether performing or non-performing, in any given cohort are paid off in their original cohort and new loans are opened in the cohort in which consolidation activity occurs. This consolidation activity is taken into consideration in setting the subsidy rate for defaults.

The FFEL estimated liability for loan guarantees is reported as the present value of estimated net cash outflows. Defaulted FFEL loans are reported net of an allowance for subsidy computed using net present value methodology, including defaults, collections, and cancellations. The same methodology is used to estimate the allowance on Direct Loans receivables.

The Department disbursed approximately $18 billion in Direct Loans to eligible borrowers in FY 2003 and approximately $20 billion in loans in FY 2002. Half of all loan volume is obligated in the fourth quarter of the fiscal year. Loans typically disburse in multiple installments over an academic period; as a result, loan disbursements for an origination cohort year often cross fiscal years. Regardless of the fiscal year in which they occur, disbursements are tracked by the cohort to which they belong, which is determined by the time of obligation rather than disbursement.

As of September 30, 2003 and 2002, the total principal balance outstanding of guaranteed loans held by lenders was approximately $213 billion and $182 billion, respectively. As of September 30, 2003 and 2002, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $209 billion and $179 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the Guaranty Agencies, based on the appropriate reinsurance rates, which range from 100 to 95 percent. Any remaining insurance not paid as reinsurance would be paid to lenders by the Guaranty Agencies from their federal funds. Payments by Guaranty Agencies do not reduce government exposure because they are made from federal funds administered by the agencies.

The Department accrues interest receivable and records interest revenue on its performing direct loans. Given the Department's substantial collection rates, interest receivable is also accrued and interest revenue recognized on defaulted direct loans. Guaranteed loans that default are initially turned over to Guaranty Agencies for collection and interest receivable is accrued and recorded on the loans as the collection rate is substantial. After approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection. Due to the age of these loans, accrued interest is calculated but only recorded upon collection. Interest income is not recognized on the defaulted guaranteed loans and collections of interest are considered recoveries of prior cost.

As previously noted, borrowers may pre-pay and close out existing loans without penalty from capital raised through the disbursement of a new consolidation loan. The loan liability and net receivables include estimates of future prepayments of existing loans; they do not reflect costs associated with anticipated future consolidation loans.

Due to the nature of the loan commitment process in which schools establish a loan commitment with the filing of an aid application, which may occur before a student has been accepted by the school or begins classes, approximately 7 percent of loan commitments are never disbursed. For Direct Loans committed in FY 2003, an estimated $1.2 billion will not be disbursed; for guaranteed loans committed in FY 2003, an estimated $4.9 billion will not be disbursed.

Credit Program Receivables, Net

The Credit Program Receivables, Net consist of the following program loans:

(Dollars in Thousands)	2003	2002
Direct Loan Program Loan Receivables, Net	$ 86,633,897	$ 84,846,534
FFEL Program Loan Receivables, Net	10,785,912	6,287,762
Perkins Program Loan Receivables, Net	194,848	192,371
Facilities and Other Loan Receivables, Net	350,622	379,479
Credit Program Receivables, Net	**$ 97,965,279**	**$ 91,706,146**

The following schedules summarize the direct and defaulted FFEL loan principal and related interest receivable, net or inclusive of the allowance for subsidy. (See Note 1.)

Direct Loan Program Receivables

(Dollars in Thousands)	2003	2002
Principal Receivable	$ 84,520,521	$ 80,070,351
Interest Receivable	2,770,780	2,661,242
Receivables	**87,291,301**	**82,731,593**
Allowance for Subsidy	(657,404)	2,114,941
Credit Program Receivables, Net	**$ 86,633,897**	**$ 84,846,534**

Of the $87.3 billion in Direct Loan receivables as of September 30, 2003, $5.6 billion are currently in default and held at the Department's Borrowers Services Collections Group. As of September 2002, $4.3 billion were in default and held at the Department's Borrowers Services Collections Group out of a total receivable of $82.7 billion.

FFEL Program Credit Program Receivables

	2003			2002		
(Dollars in Thousands)	Pre-1992	Post-1991	Total	Pre-1992	Post-1991	Total
Principal Receivable	$10,555,230	$ 7,119,031	$ 17,674,261	$11,656,526	$ 6,098,623	$17,755,149
Interest Receivable	1,143,591	1,553,490	2,697,081	1,284,433	1,732,193	3,016,626
Receivables	**11,698,821**	**8,672,521**	**20,371,342**	**12,940,959**	**7,830,816**	**20,771,775**
Allowance for Subsidy	(8,273,252)	(1,312,178)	(9,585,430)	(11,904,071)	(2,579,942)	(14,484,013)
Credit Program Receivables, Net	**$ 3,425,569**	**$ 7,360,343**	**$ 10,785,912**	**$ 1,036,888**	**$ 5,250,874**	**$ 6,287,762**

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Direct Loan Program Reconciliation of Allowance for Subsidy

The reconciliation of allowance for subsidy for the Direct Loan Program follows:

(Dollars in Thousands)	2003	2002
Beginning Balance, Allowance for Subsidy	$ 2,114,941	$ 1,568,317
Components of Subsidy Transfers		
Interest Rate Differential	1,724,006	1,500,008
Defaults, Net of Recoveries	(612,976)	(210,714)
Fees	377,366	302,128
Other	(1,122,001)	(869,493)
Current Year Subsidy Transfers from Program Account	366,395	721,929
Components of Subsidy Re-estimates		
Interest Rate Re-estimates[1]	(388,772)	-
Technical and Default Re-estimates	(4,693,652)	(1,598,930)
Total Subsidy Re-estimates	(5,082,424)	(1,598,930)
Activity		
Fee Collections	(408,367)	(374,592)
Loan Cancellations[2]	103,640	39,420
Subsidy Allowance Amortization	1,953,233	1,537,294
Other	295,178	221,503
Total Activity	1,943,684	1,423,625
Ending Balance, Allowance for Subsidy	$ (657,404)	$ 2,114,941

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[1] The interest rate re-estimate relates to subsidy associated with establishing a fixed rate for the Department's borrowing from Treasury. This re-estimate is recorded as a separate component in 2003.

[2] Loan cancellations include write-offs of loans because the primary borrower died, became disabled, or declared bankruptcy.

FFEL Program Reconciliation of Liabilities for Loan Guarantees

Liabilities for loan guarantees represent the present value of future projected cash outflows from the Department, net of inflows, such as fees, and collection of principal and interest on defaulted guaranteed loans assumed for direct collection. (See Note 1.)

The FFEL Program liability for loan guarantees reconciliation is associated with the FFEL Program loans guaranteed in the financing account. The FFEL liquidating account Liability for Loan Guarantees is included in the total Liabilities for Loan Guarantees.

(Dollars in Thousands)	2003	2002
Beginning Balance, Liability for Loan Guarantees	**$ 11,570,498**	**$ 8,226,207**
Components of Subsidy Transfers		
Interest Supplement Costs	5,569,423	3,455,302
Defaults, Net of Recoveries	1,398,038	1,115,428
Fees	(3,181,346)	(2,118,056)
Other[1]	2,086,899	1,337,713
Current Year Subsidy Transfers from Program Account	**5,873,014**	**3,790,387**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	3,887	-
Technical and Default Re-estimates	(2,533,956)	128,444
Subsidy Re-estimates in Liability	**(2,530,069)**	**128,444**
Activity		
Interest Supplement Payments	(2,087,503)	(2,327,175)
Claim Payments	(2,833,905)	(2,779,963)
Fee Collections	2,024,828	1,515,435
Interest on Liability Balance	457,669	415,719
Other[2]	2,835,481	2,601,444
Total Activity	**396,570**	**(574,540)**
Ending Balance, Liability for Loan Guarantees	**15,310,013**	**11,570,498**
FFEL Liquidating Account Liability for Loan Guarantees	121,702	108,895
Total Liabilities for Loan Guarantees	**$ 15,431,715**	**$ 11,679,393**

[1] Subsidy primarily associated with debt collections, loan cancellations due to death, disability, and bankruptcy.

[2] Activity primarily associated with the transfer of subsidy for defaults; loan consolidation activity; and loan cancellations due to death, disability, and bankruptcy.

Subsidy Expense

Direct Loan Program and FFEL Program subsidy expenses are as follows:

Direct Loan Program Subsidy Expense

(Dollars in Thousands)	2003	2002
Components of Current-Year Subsidy Transfers		
Interest Rate Differential	$ (1,724,006)	$ (1,500,008)
Defaults, Net of Recoveries	612,976	210,714
Fees	(377,366)	(302,128)
Other	1,122,001	869,493
Current Year Subsidy Transfers	(366,395)	(721,929)
Re-estimates	5,082,424	1,598,930
Direct Loan Subsidy Expense	$ 4,716,029	$ 877,001

The $5.1 billion upward re-estimate of existing loans in 2003 is composed of a $4.2 billion re-estimate for 2003, of which $0.5 billion relates to loans originated in 2003, and an additional re-estimate for 2002 of $0.9 billion resulting from the 2004 President's Budget (January 2003).

FFEL Program Loan Guarantee Subsidy Expense

(Dollars in Thousands)	2003	2002
Components of Current-Year Subsidy Transfers		
Interest Supplement Costs	$ 5,569,423	$ 3,455,302
Defaults, Net of Recoveries	1,398,038	1,115,428
Fees	(3,181,346)	(2,118,056)
Other	2,086,899	1,337,713
Current Year Subsidy Transfers	5,873,014	3,790,387
Re-estimates	(3,364,747)	197,959
FFEL Loan Guarantee Subsidy Expense	$ 2,508,267	$ 3,988,346

The $3.4 billion downward re-estimate of existing loans in 2003 is composed of a $2.9 billion re-estimate for 2003, of which $1.1 billion relates to loans originated in 2003, and an additional re-estimate for 2002 of $0.5 billion resulting from the 2004 President's Budget (January 2003).

Subsidy Rates

The subsidy rates applicable to the 2003 loan cohort year are as follows:

Subsidy Rates - Cohort 2003

	Interest Differential	Defaults	Fees	Other	Total
Direct Loan Program	(9.01%)	3.14%	(1.99%)	6.40%	(1.46%)
	Interest Supplements	**Defaults**	**Fees**	**Other**	**Total**
FFEL Program	9.12%	2.21%	(5.22%)	3.47%	9.58%

The subsidy rates disclosed pertain only to the cohort listed. These rates cannot be applied to direct or guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new direct or guaranteed loans reported in the current year relate to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when direct loans are disbursed by the Department or third-party lenders disburse guaranteed loans. The 2003 re-estimates for the Direct Loan and FFEL programs included re-estimates for the 2003 cohort; the result of these re-estimates effectively changed the executed subsidy rates shown in the chart above. The effective Direct Loan subsidy rate for the 2003 cohort is 1.14 percent – (0.98) percent interest differential, (0.03) percent defaults, (2.16) percent fees and 4.32 percent other. In the FFEL program, the effective subsidy rate for the 2003 cohort is 7.79 percent – 7.39 percent interest supplements, 1.68 percent defaults, (3.89) percent fees and 2.61 percent other.

Administrative Expenses

The administrative expenses for Direct Loan and FFEL Programs are as follows:

	2003		2002	
(Dollars in Thousands)	Direct Loan	FFEL	Direct Loan	FFEL
Operating Expense	$ 358,285	$ 270,553	$ 393,848	$ 462,655
Other Interest Expense	92	2	152	14
Benefit Expense	(184)	(99)	184	99
Depreciation, Amortization Expense	10,745	63	7,995	34
Future Funded Expenses	(789)	1,136	121	(149)
Changes in Actuarial Liability	(1)	1,094	303	(244)
Total Administrative Expenses	$ 368,148	$ 272,749	$ 402,603	$ 462,409

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Perkins Loan Program

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In FY 2003, the Department provided funding of 85.2 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. In FY 2002, the Department provided 85.5 percent. For certain defaulted loans, the Department reimburses the originating school and collects from the borrowers. At September 30, 2003 and 2002, loans receivable, net of an allowance for loss, was $195 million and $192 million, respectively. These loans, originally disbursed as grants, are valued at historical cost.

Facilities Loan Programs

The Department administers the College Housing and Academic Facilities Loans (CHAFL), College Housing Loans (CHL), and Higher Education Facilities Loans (HEFL) programs. From 1952 to 1993, these programs provided low-interest financing to institutions of higher education for the construction, reconstruction, and renovation of housing, academic, and other educational facilities. Since 1998, no new loans have been authorized.

The Department also administers the Historically Black Colleges and Universities (HBCU) Capital Financing program. Since 1992, this program has given HBCUs access to financing for the repair, renovation, and, in exceptional circumstances, the construction or acquisition of facilities, equipment, and infrastructure through federally insured bonds. The Department has authorized a designated bonding authority to make the loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with statute, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

The credit program receivables are as follows:

(Dollars in Thousands)	**2003**	**2002**
Principal Receivable	$ 449,350	$ 478,823
Interest Receivable	7,680	7,366
Receivables	**457,030**	**486,189**
Allowance for Subsidy	(106,776)	(107,083)
Credit Program Receivables, Net	**$ 350,254**	**$ 379,106**

Note 5. Accounts Receivable

Accounts receivable consisted of the following at September 30, 2003 and 2002:

	2003		
(Dollars in Thousands)	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 3,523	$ -	$ 3,523
With the Public	459,773	(280,541)	179,232
Total Accounts Receivable	**$ 463,296**	**$ (280,541)**	**$ 182,755**

	2002		
(Dollars in Thousands)	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 75,950	$ -	$ 75,950
With the Public	375,073	(186,866)	188,207
Total Accounts Receivable	**$ 451,023**	**$ (186,866)**	**$ 264,157**

Accounts receivable represent balances due from recipients of grant and other financial assistance programs, and reimbursable agreements from other federal agencies. They are recorded at their estimated net realizable value. Estimates for the allowance for loss on uncollectible accounts are based on historical data.

Note 6. General Property, Plant and Equipment

General property, plant and equipment consisted of the following at September 30, 2003 and 2002:

	2003		
(Dollars in Thousands)	Asset Cost	Accumulated Depreciation	Net Asset Value
IT Equipment	$ 65,451	$ (38,311)	$ 27,140
Furniture and Fixtures	1,916	(887)	1,029
Building Improvements	173	(87)	86
Total General Property, Plant and Equipment	$ 67,540	$ (39,285)	$ 28,255

	2002		
(Dollars in Thousands)	Asset Cost	Accumulated Depreciation	Net Asset Value
IT Equipment	$ 53,815	$ (18,433)	$ 35,382
Furniture and Fixtures	1,916	(504)	1,412
Building Improvements	173	(52)	121
Total General Property, Plant and Equipment	$ 55,904	$ (18,989)	$ 36,915

Information Technology Equipment consists of computer hardware and related software. The majority of these costs represent the continuing acquisition and implementation of a new financial accounting system. Furniture and fixtures and building improvements are related to renovating and furnishing new quarters for FSA.

Note 7. Treasury Debt

At September 30, 2003, the Department's Debt to the U.S. Treasury and the Federal Financing Bank (FFB) was $91,938 million and $80 million, respectively. The table below depicts the change in debt from October 1, 2002, to September 30, 2003:

	2003				
	U. S. Treasury				
(Dollars in Thousands)	Direct Student Loans	Facilities Loans	Total	FFB	Total
Beginning Balance	$ 89,497,870	$ 214,942	$ 89,712,812	$ 69,335	$ 89,782,147
Accrued Interest	-	-	-	861	861
New Borrowing	19,636,641	-	19,636,641	11,790	19,648,431
Repayments	(17,347,780)	(64,100)	(17,411,880)	(1,831)	(17,413,711)
Ending Balance	**$ 91,786,731**	**$ 150,842**	**$ 91,937,573**	**$ 80,155**	**$ 92,017,728**

At September 30, 2002, the Department's Debt to the U.S. Treasury and the Federal Financing Bank (FFB) was $89,713 million and $69 million, respectively. The table below depicts the change in debt from October 1, 2001 to September 30, 2002:

	2002				
	U. S. Treasury				
(Dollars in Thousands)	Direct Student Loans	Facilities Loans	Total	FFB	Total
Beginning Balance	$ 77,189,105	$ 266,732	$77,455,837	$ 31,582	$ 77,487,419
Accrued Interest	-	15,000	15,000	473	15,473
New Borrowing	20,604,901	-	20,604,901	41,614	20,646,515
Repayments	(8,296,136)	(66,790)	(8,362,926)	(4,334)	(8,367,260)
Ending Balance	**$ 89,497,870**	**$ 214,942**	**$ 89,712,812**	**$ 69,335**	**$ 89,782,147**

Funds were borrowed to provide funding for direct loans to students and facilities loan programs. In addition, the FFB holds bonds issued by the Department on behalf of the HBCU Capital Financing Program. The Department reports the corresponding liability for full payment of principal and accrued interest as a payable to the FFB under rules established by the Credit Reform Act of 1990.

The level of repayments on borrowings to Treasury is derived from many factors:

- Beginning-of-the-year cash balance, collections, borrowings, interest revenue, disbursements, and interest expense have an impact on the available cash to repay Treasury.
- Cash is held to cover future liabilities, such as contract collection costs and disbursements in transit.

Note 8. Payable to Treasury

At September 30, 2003 and 2002, the Department reported $7,023 million and $4,713 million, respectively, as payable to the U.S. Treasury for estimated liquidating fund future cash inflows in excess of outflows and for downward re-estimates of subsidy, as shown in the table below:

(Dollars in Thousands)	2003	2002
Future Liquidating Account Collections, Beginning Balance	$ 2,007,080	$ 1,506,429
Valuation of Pre-92 Loan Liability and Allowance	3,541,736	1,174,282
Capital Transfers to Treasury	(1,787,951)	(673,631)
Future Liquidating Account Collections, Ending Balance	3,760,865	2,007,080
FFEL Downward Subsidy Re-estimate	3,262,130	2,706,126
Total Payable to Treasury	$ 7,022,995	$ 4,713,206

In accordance with the Credit Reform Act, the liquidating fund pays monies to Treasury each year based on available fund balances, and the financing funds pay the liability related to downward subsidy re-estimates.

Note 9. Other Liabilities

Other liabilities include current liabilities for contractual services, administrative services, deferred credit, liability for deposit funds, contingent liabilities, custodial liabilities, and the liability for unfunded accrued annual leave. Additionally, the non-current liabilities include unfunded accrued FECA. Other liabilities consisted of the following at September 30, 2003 and 2002:

(Dollars in Thousands)	2003	2002
Intragovernmental		
Accrued Unfunded FECA Liability	$ 3,201	$ 3,569
Custodial Liability	259	13,674
Deferred Credits	-	72,111
Liability for Deposit Funds	45,874	96,559
Advance From Others	55,536	-
Total Intragovernmental	104,870	185,913
With the Public		
Accrued Payroll and Benefits	11,518	25,592
Accrued Unfunded Annual Leave	29,094	28,137
Custodial Liability	220,298	189,122
Deferred Credits	6,982	51
Liability for Deposit Funds	35,599	49,730
Other	146,014	168,642
Total With the Public	449,505	461,274
Total Other Liabilities	$ 554,375	$ 647,187

Note 10. Liabilities Not Covered by Budgetary Resources

Liabilities on the Department's Balance Sheet as of September 30, 2003 and 2002, include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consisted of the following at September 30, 2003 and 2002:

(Dollars in Thousands)	2003	2002
Intragovernmental		
Accrued Unfunded FECA Liability	$ 3,201	$ 3,569
Custodial Liability	259	13,674
Total Intragovernmental	3,460	17,243
With the Public		
Custodial Liability	220,298	189,122
Accrued Unfunded Annual Leave	29,094	28,137
Federal Employee and Veterans' Benefits	22,265	21,664
Total With the Public	271,657	238,923
Total Liabilities Not Covered by Budgetary Resources	275,117	256,166
Total Liabilities Covered by Budgetary Resources	117,547,890	109,828,057
Total Liabilities	$ 117,823,007	$ 110,084,223

Note 11. Accrued Grant Liability

At September 30, 2003 and 2002, the accrued grant liability totaled $1,366 million and $1,721 million, respectively. (See Note 1.) The components by internal reporting groups are shown in the table below:

(Dollars in Thousands)	2003	2002
FSA	$ 550,739	$ 749,376
OESE	256,339	337,043
OSERS	250,397	220,219
OVAE	56,679	61,155
OPE	168,775	272,394
IES	52,610	55,749
OELA	30,959	25,341
Total Accrued Grant Liability	$ 1,366,498	$ 1,721,277

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Note 12. Net Position

The nature of the Department's net position was discussed in Note 1, and the components are set forth in the statement of changes in net position. The table below reports the composition of appropriations that have not been used to fund goods and services received or benefits provided as of September 30, 2003 and 2002:

(Dollars in Thousands)	2003	2002
Unobligated		
Available	$ 2,978,618	$ 2,077,966
Not Available	357,981	400,571
Undelivered Orders	40,594,718	36,642,667
Total Unexpended Appropriations	**$ 43,931,317**	**$ 39,121,204**

Undelivered orders and unobligated balances for federal credit financing and liquidating funds, and trust funds are not included in the chart above because they are not funded through appropriations. As a result, unobligated and undelivered order balances in the chart above will differ from these balances in the Combined Statement of Budgetary Resources.

The Department had Cumulative Results of Operations of ($4,497) million as of September 30, 2003, and ($3,838) million as of September 30, 2002. Cumulative Results of Operations arise from unfunded expenses, capital equipment purchases and upward loan subsidy re-estimates. Upward re-estimate expense contributing to the balance of Cumulative Results of Operations for the Direct Loan Program was $5,083 million and $1,599 million in fiscal years 2003 and 2002, respectively. (See Note 4.) The FFEL Program expensed $3,365 million and $198 million in fiscal years 2003 and 2002, respectively. (See Note 4.)

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Note 13. Interest Revenue and Expense

For the Direct Loan Program, nonfederal interest revenue is earned on the individual non-defaulted loans in the loan portfolio and amortization of subsidy cost while federal interest is earned on the uninvested fund balances with Treasury. For the Direct Loan Program, interest expense is incurred on the Department's borrowings from Treasury. For the FFEL program, federal interest revenue is earned on the uninvested fund balance with Treasury in the financing fund. Program A, Enhancement of Postsecondary and Adult Education includes the Direct Loan Program and the FFEL Program.

The interest revenues and expenses directly attributable to the Direct Loan Program, the FFEL Program, and other remaining programs are summarized below as of September 30, 2003 and 2002:

(Dollars in Thousands)	Direct Student Loans		FFEL Program		Other Programs		Total	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Interest Revenue:								
Federal	$ 1,076,148	$ 972,063	$ 457,669	$ 415,719	$ (258)	$ 76	$ 1,533,559	$ 1,387,858
Non-Federal	4,954,180	4,743,677	-	-	30,380	38,908	4,984,560	4,782,585
Total Interest Revenue	$ 6,030,328	$ 5,715,740	$ 457,669	$ 415,719	$ 30,122	$ 38,984	$ 6,518,119	$ 6,170,443
Interest Expense:								
Federal	$ 6,030,328	$ 5,715,740	$ 457,669	$ 415,719	$ 15,949	$ 17,933	$ 6,503,946	$ 6,149,392
Non-Federal	92	(20)	2	15	425	3,605	519	3,600
Total Interest Expense	$ 6,030,420	$ 5,715,720	$ 457,671	$ 415,734	$ 16,374	$ 21,538	$ 6,504,465	$ 6,152,992

Note 14. Imputed Financing

The Statement of Changes in Net Position recognized an imputed financing source of $30 million for the year ended September 30, 2003, and $24 million for the year ended September 30, 2002. Corresponding imputed post-employment benefit expenses are recognized on the Statement of Net Cost as a program cost under salaries and administrative expense for both fiscal years. (See Note 1.)

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Note 15. Statement of Budgetary Resources

The Statement of Budgetary Resources compares budgetary resources with the status of those resources. As of September 30, 2003, budgetary resources were $118,322 million, and net outlays for the year were $58,168 million. As of September 30, 2002, budgetary resources were $104,423 million, and net outlays for the year were $56,079 million.

Apportionment Categories of Obligations Incurred

The Department receives apportionments of its resources from OMB. Category A apportionments are those for resources that can be obligated without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Category B apportionments are restricted by purpose for which obligations can be incurred. In addition, some resources are available without apportionment by OMB.

The apportionment categories of obligations incurred during FY 2003 and FY 2002 are summarized below:

(Dollars in Thousands)	2003	2002
Direct:		
Category A	$ 1,243,998	$ 1,233,557
Category B	101,840,268	90,423,051
Exempt from Apportionment	61,853	209,057
	103,146,119	91,865,665
Reimbursable:		
Category A	7,738	-
Category B	71,483	70,814
Exempt from Apportionment	3,193	-
	82,414	70,814
Total Apportionment Categories of Obligations Incurred	**$ 103,228,533**	**$ 91,936,479**

Adjustments to Beginning Balance of Budgetary Resources

Guaranty Agency reserves are non-entity assets that the Department collects and holds on behalf of the U.S. government. These balances represent the federal government's interest in net assets of state and non-profit FFEL Program Guaranty Agencies (see Note 1). In FY 2002, the Department reclassified Guaranty Agency reserves from a receivable to "Cash and Other Monetary Assets" (see Note 3). This reclassification, for amounts prior to October 1, 2001, is reflected on the Statement of Budgetary Resources as an upward adjustment of $2.5 billion to the beginning unobligated balance.

The beginning balance for unobligated balances was adjusted for approximately $4.8 million. During FY 2002, the Department determined the beginning balance for unobligated balances in appropriation X0201 – Higher Education was understated. The understatement was due to an incorrect closing entry recorded in FY 1999. The correction was recorded in the general ledger during FY 2002 as an adjustment to unobligated balances, beginning balances.

Permanent Indefinite Appropriation

The Federal Direct Student Loan Program and the FFEL Program were granted permanent indefinite appropriation budget authority through legislation. Part D of the William D. Ford Federal Direct Loan Program and part B of the Federal Family Education Loan program, pursuant to the HEA of 1965, pertains to the existence, purpose, and availability of this permanent indefinite appropriations authority.

Unused Borrowing

The Department is given authority to draw funds from the U.S. Treasury to help finance the majority of its direct lending activity in accordance with its needs. Unliquidated Borrowing Authority is considered a budgetary resource and is available to support obligations at the end of the fiscal year. The Department periodically reviews its borrowing authority balances and cancels unused amounts. Unused Borrowing Authority as of September 30, 2003, and September 30, 2002, was determined as follows:

(Dollars in Thousands)	2003	2002
Beginning Balance, Unused Borrowing Authority	$ 4,952,874	$ 3,571,406
Current Year Borrowing Authority	21,766,323	22,045,839
Funds Drawn From Treasury	(19,648,431)	(20,644,289)
Prior Year Unused Borrowing Authority Cancelled	(92,410)	(20,082)
Ending Balance, Unused Borrowing Authority	**$ 6,978,356**	**$ 4,952,874**

Comparison to the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7 (*SFFAS No. 7*), *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the statement of budgetary resources to the related actual balances published in the *Budget of the United States Government*. However, the *Budget of the United States Government* has not yet been published. The Budget is scheduled for publication in February 2004 and will be available through OMB. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements. There were no material differences between the FY 2002 column on the Statement of Budgetary Resources and the FY 2002 actual amounts reported in the *Budget of the United States Government*.

Note 16. Statement of Financing

The Statement of Financing provides information on the total resources used by an agency, both those received through budgetary resources and those received through other means during the reporting period. The statement reconciles these resources with the net cost of operations by (1) removing resources that do not fund net cost of operations and (2) including components of net cost of operations that did not generate or use resources during the year.

The Statement of Financing is presented as a consolidated statement for the Department and its major programs. Net interagency eliminations are presented for proprietary amounts. The budgetary amounts are reported on a combined basis as presented in the SBR. Accordingly, net interagency eliminations for budget amounts are not presented.

The relationship between the amounts reported as liabilities not covered by budgetary resources on the balance sheet and amounts reported as components requiring or generating resources in future periods on the statement of financing were analyzed. The differences are primarily due to the increase in custodial liability, which does not generate net cost of operations or require the use of budgetary resources.

Note 17. Cost and Earned Revenue by Budget Function

The Department's gross costs and revenue, by budget function for September 30, 2003 and 2002, are presented below:

	2003			2002		
(Dollars in Thousands)	Gross Costs	Earned Revenue	Net Costs	Gross Costs	Earned Revenue	Net Costs
Education, Training Employment and Social Services	$65,207,057	$(6,522,592)	$58,684,465	$55,806,127	$(6,157,322)	$49,648,805
Administration of Justice	119,526	(86)	119,440	116,874	(2)	116,872
Total	$65,326,583	$(6,522,678)	$58,803,905	$55,923,001	$(6,157,324)	$49,765,677

The Department's intragovernmental gross costs and revenue, by budget function for September 30, 2003 and 2002, are presented below:

	2003			2002		
(Dollars in Thousands)	Gross Costs	Earned Revenue	Net Costs	Gross Costs	Earned Revenue	Net Costs
Education, Training Employment and Social Services	$ 6,708,587	$(1,550,947)	$ 5,157,640	$ 6,579,028	$(1,390,263)	$ 5,188,765
Administration of Justice	119,526	(86)	119,440	13,275	(2)	13,273
Total	$ 6,828,113	$(1,551,033)	$ 5,277,080	$ 6,592,303	$(1,390,265)	$ 5,202,038

Note 18. Program Costs by Segment

The format of the Statement of Net Cost is in compliance with OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*. Specifically, responsibility segments were aligned with the major goals of the Department of Education's *Strategic Plan* 2002–2007, as required by the Government Performance and Results Act (GPRA).

Responsibility segments were aligned with the following Strategic Goals:

- Enhance the quality and access to postsecondary and adult education
- Create a culture of achievement
- Improve student achievement
- Develop safe schools and strong character
- Transform education into an evidence-based field

The importance of special education was highlighted by maintaining a separate responsibility segment for this on the face of the Statement of Net Cost.

Program A on the Statement of Net Cost relates directly to Strategic Goal 5: "Enhance the quality and access to postsecondary and adult education." It combines the reporting groups of Federal Student Aid, the Office of Vocational and Adult Education, and the Office of Postsecondary Education. Program B relates directly to Strategic Goals 1, 2, and 3: "Create a culture of achievement, Improve student achievement, and Develop safe schools and strong character." Program B combines the Office of Elementary and Secondary Education and the Office of English Language Acquisition. Program C relates to Strategic Goal 4: "Transform education into an evidenced-based field," and includes the Institute of Education Sciences. Finally, Program D relates to "special education and program execution" and includes the Office of Special Education and Rehabilitative Services.

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Note 19. Contingencies

Guaranty Agencies

The Department can assist Guaranty Agencies experiencing financial difficulties by advancing funds or by other means. No provision has been made in the principal statements for potential liabilities related to financial difficulties of Guaranty Agencies because the likelihood of such occurrences is uncertain and cannot be estimated with sufficient reliability.

Perkins Loans Reserve Funds

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In FY 2003, the Department provided funding of 85.2 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The school provided the remaining 14.8 percent of program funding. For the latest academic year ended June 30, 2003, approximately 763,890 loans were made, totaling $1.5 billion at 1,742 institutions, averaging $1,919 per loan. The Department's share of the Perkins Loan Program was approximately $6.5 billion as of June 30, 2003.

In FY 2002, the Department provided funding of 85.5 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The school provided the remaining 14.5 percent of program funding. For the academic year ended June 30, 2002, approximately 663,527 loans were made, totaling $1.2 billion at 1,790 institutions, averaging $1,872 per loan. The Department's share of the Perkins Loan Program was approximately $6.5 billion as of June 30, 2002.

Perkins Loan borrowers who meet statutory eligibility requirements—such as service as a teacher in low-income areas, as a Peace Corps or VISTA volunteer, in the military or in law enforcement, nursing, or family services—may receive partial loan forgiveness for each year of qualifying service. In these circumstances a contingency is deemed to exist. The Department may be required to compensate Perkins Loan institutions for the cost of the partial loan forgiveness.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Department are paid by the Department of Justice. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial statements.

Other Matters

Some portion of the current year financial assistance expenses (grants) may include funded recipient expenditures which were subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Department's financial statements.

Required Supplementary Stewardship Information

Investment in Human Capital

The U. S. Department of Education executes programs under the Education, Training, and Employment and Social Services function established by Congress in the *Budget Act of 1974*. This report presents Human Capital activity related to the execution of the Department's congressionally approved budget and programs.

The Department's mission is to ensure equal access to education and to promote educational excellence throughout the nation. To carry out this mission, the Department works in partnership with states, schools, communities, institutions of higher education and financial institutions—and through them, with students, teachers and professors, families, administrators, and employers. Key functions of the partnership are as follows:

- Leadership to address critical issues in American education.
- Grants to education agencies and institutions to strengthen teaching and learning and prepare students for citizenship, employment in a changing economy, and lifelong learning.
- Student loans and grants to help pay for the costs of postsecondary education.
- Grants for literacy, employment, and self-sufficiency training for adults.
- Monitoring and enforcement of civil rights to ensure nondiscrimination by recipients of federal education funds.
- Support for statistics, research, development, evaluation, and dissemination of information to improve educational quality and effectiveness.

Human Capital Programs

Federal investment in Human Capital comprises those expenses for general public education and training programs that are intended to increase or maintain national economic productive capacity. The Department of Education's Human Capital programs are administered by the following offices: Elementary and Secondary Education, Safe and Drug-free Schools, Innovation and Improvement, Postsecondary Education, Federal Student Aid, Special Education and Rehabilitative Services, Institute of Education Sciences, English Language Acquisition, and Vocational and Adult Education. A list of key programs for each office is outlined below.

Office of Elementary and Secondary Education

The Office of Elementary and Secondary Education provides leadership, technical assistance, and financial support to state and local educational agencies for maintenance and improvement of preschool, elementary, and secondary education. Programs administered by this office include:

- **Improving Academic Achievement of the Disadvantaged (Title I) Programs** provide financial assistance to state and local education agencies and other institutions to support services for children in high poverty schools, institutions for neglected and delinquent children, homeless children, and certain Indian children.
- **The Impact Aid Program** provides financial assistance for the maintenance and operations of school districts in which the federal government has acquired substantial real property. It provides direct assistance to local educational agencies that educate substantial numbers of federally connected pupils (children who live on or whose parents work on federal property).
- **Indian Education** supports the efforts of local educational agencies, Indian tribes, and other entities to meet the academic needs of American Indians and Alaska Natives so these students can achieve to the same state performance standards as all students.
- **Migrant Education Programs** support high-quality comprehensive educational programs for migratory children and youth to address disruptions in schooling and other problems that result from repeated moves.

Office of Safe and Drug-Free Schools

This office supports efforts to create safe schools, respond to crises, prevent drug and alcohol abuse, ensure the health and well being of students, and teach students good citizenship and character. Programs administered by this office include:

- **Health, Mental Health, and Physical Education** programs promote the health and well-being of students and families as outlined by Title IV, Safe and Drug-free Schools and Communities Act.
- **Drug-Violence Prevention—State and National Programs** are designed to develop and maintain safe, disciplined, and drug-free schools.

Office of Innovation and Improvement

The Office of Innovation and Improvement makes strategic investments in educational practices through grants to states, schools, and community and nonprofit organizations. The office leads the movement for greater parental options and information in education. Programs administered by this office include:

- **Public Charter Schools Program** supports the planning, development, and initial implementation of charter schools. Charter schools provide enhanced parental choice and are exempt from many statutory and regulatory requirements. In exchange for increased flexibility, charter schools are held accountable for improving student academic achievement.
- **Fund for the Improvement of Education** provides authority for the Secretary to support nationally significant programs to improve the quality of elementary and secondary education at the state and local levels and help all students meet challenging state academic content standards and student achievement standards. Funds also support "Programs of National Significance" by grants to state and local education agencies, nonprofit organizations, and other public and private entities that have been identified by Congress in appropriations legislation.

The Office of Postsecondary Education

The Office of Postsecondary Education formulates policy and coordinates programs that assist postsecondary educational institutions and students pursuing a postsecondary education. This office administers the following programs:

- **Fund for the Improvement of Postsecondary Education** provides grants to colleges and universities to promote reform, innovation, and improvement in postsecondary education.
- **Higher Education Programs (HEP)** administer discretionary funds and provide support services that improve student access to postsecondary education and foster excellence in institutions of higher education. The TRIO programs, under HEP, are outreach and support programs targeted to help disadvantaged students progress from middle school to postbaccalaureate programs.

Office of Federal Student Aid

The Office of Federal Student Aid (FSA) administers need-based financial assistance programs for students pursuing postsecondary education. The Department makes available federal grants, loans, and work-study funding to eligible undergraduate and graduate students. The Department's two major loan programs are as follows:

- **Federal Family Education Loan Program** operates with state and private nonprofit Guaranty Agencies to provide loan guarantees and interest supplements through permanent budget authority on loans by private lenders to eligible students.
- **William D. Ford Direct Student Loan Program** is a direct lending program in which loan capital is provided to students by the federal government through borrowings from the U.S. Treasury.

The Office of Special Education and Rehabilitative Services

The Office of Special Education and Rehabilitative Services supports programs that assist in educating children with special needs. It provides for the rehabilitation of youth and adults with disabilities and supports research to improve the lives of individuals with disabilities. This office includes three components:

- **Office of Special Education Programs** administers programs and projects relating to the education of all children, youth, and adults with disabilities from birth through age 21 by providing leadership and financial support to assist states and local districts. The largest program is the Grants to States under the Individuals with Disabilities Education Act.
- **Rehabilitation Services Administration** oversees programs and projects related to vocational rehabilitation and independent living of individuals with disabilities to increase their employment, independence, and integration into the community. The largest program is the Vocational Rehabilitation State Grants.
- **The National Institute on Disability and Rehabilitation Research** provides leadership and support for a comprehensive program of research related to the rehabilitation of individuals with disabilities.

Institute of Education Sciences

The Institute of Education Sciences is the main research arm, which compiles statistics; funds research, evaluations, and dissemination; and provides research-based guidance to further evidence-based policy and practice. Its three operational divisions are as follows:

- **The National Center for Education Research** (NCER) supports research that contributes to the solution of significant education problems in the United States. Through its research initiatives and the national research and development centers, NCER supports research activities that examine the effectiveness of educational programs, practices, and policies, including the application of technology to instruction and assessment. The goal of NCER research programs is to provide scientific evidence of what works and for whom and under what conditions.
- **The National Center for Education Evaluation and Regional Assistance** is responsible for conducting evaluations of the impact of federal programs and disseminating information from evaluation and research, and providing technical assistance to improve student achievement. The National Library of Education, established within the center, is the largest federally funded library devoted entirely to education and provides services in three areas: reference and information services, collection and technical services, and resource sharing and cooperation.
- **The National Center for Education Statistics** (NCES) is responsible for collecting, analyzing, and reporting education information and statistics on the condition and progress of education at the preschool, elementary, secondary, postsecondary, and adult levels, including data related to education in other nations. Included among its data collection efforts is the National Assessment of Educational Progress.

The Office of English Language Acquisition

The Office of English Language Acquisition administers programs designed to enable students with limited English proficiency to become proficient in English and meet challenging state academic content and student achievement standards. Programs from this office include the following:

- **State Formula Grant Program** is designed to improve the education of limited English proficient children and youths by helping them learn English and meet challenging state academic content and student academic achievement standards. The program provides enhanced instructional opportunities for immigrant children and youths.
- **Foreign Language Assistance Program** provides grants to pay for the federal share of the cost of innovative model programs providing for the establishment, improvement, or expansion of foreign language study for elementary and secondary school students.

Office of Vocational and Adult Education

The Office of Vocational and Adult Education provides funds for vocational-technical education for youth and adults. Most of the funds are awarded in the form of grants to state education agencies. This office administers the following programs:

- **Perkins Vocational and Technology Education State Grants** help state and local schools offer programs to develop the academic, vocational, and technical skills of students in high schools, community colleges, and regional technical centers.

Stewardship Expenses

In the Department of Education, discretionary spending constitutes approximately 90 percent of the budget and includes nearly all programs, the major exceptions being student loans and rehabilitation services. While spending for entitlement programs is usually a function of the authorizing statutes creating the programs and is not generally affected by appropriations laws, spending for discretionary programs is decided in the annual appropriations process. Most Department programs are discretionary, for example, Impact Aid, Vocational Education, Special Education, Pell Grants, Research, and Statistics.

Program Outputs

Education is primarily a state and local responsibility in the United States. States and communities, as well as public and private organizations, establish schools and colleges, develop curricula, and determine requirements for enrollment and graduation. The structure of education finance in America reflects this predominantly state and local role. Of the estimated $770 billion being spent nationwide on education at all levels for the school year 2003–04, about 90 percent comes from state, local, and private sources. The federal contribution to national education expenditures is about $77 billion. The federal contribution includes educational expenditures not only from the Department but also from other federal agencies, such as the Department of Health and Human Services' Head Start program and the Department of Agriculture's School Lunch program. The Department's $63.2 billion appropriation is about 8 percent of total educational expenditures and about 2.9 percent of the federal government's $2.2 trillion budget in fiscal year 2003.

The Department currently administers programs affecting every area and level of education. The Department's elementary and secondary programs annually serve 15,000 school districts and more than 53 million students attending almost over 92,000 public schools and more than 27,000 private schools. Department programs also provide grant, loan, and work-study assistance to more than 8 million postsecondary students.

While the Department's programs and responsibilities have grown substantially over the years, the Department itself has not. In fact, the Department's staff of approximately 4,700 is nearly 40 percent below the 7,528 employees who administered federal education programs in 1980, the year the Department was created. These staff reductions, along with a wide range of management improvements, have helped limit administrative costs to less than 2 percent of the Department's budget. This means that the Department delivers about 98 cents on the dollar in education assistance to states, school districts, postsecondary institutions, and students.

Summary of Human Capital Expenses

(Dollars in Thousands)	2003	2002	2001	2000
Federal Student Aid Expense				
Direct Loan Subsidy	$ 4,716,030	$ 877,001	$ 1,307,002	$ (3,932,928)
Guaranteed Loan Subsidy	2,508,267	3,988,346	(314,305)	295,531
Grant Program	13,836,247	12,255,984	10,812,779	8,929,383
Salaries & Administrative	179,212	206,358	248,945	449,545
Subtotal	21,239,756	17,327,689	12,054,421	5,741,531
Other Departmental				
Elementary and Secondary Education	19,493,373	16,126,586	13,850,422	13,768,336
Special Education & Rehabilitative Services	11,528,536	9,905,514	8,590,455	8,064,717
Other Departmental Program	4,828,211	4,531,357	3,892,814	3,961,700
Salaries & Administrative	395,222	472,366	341,074	293,099
Subtotal	36,245,342	31,035,823	26,674,765	26,087,852
Grand Total	$57,485,098	$48,363,512	$38,729,186	$31,829,383

Program Outcomes

Education is the stepping-stone to higher living standards for American citizens. Education is key to national economic growth. But education's contribution is more than increased productivity and incomes. Education improves health, promotes social change and opens doors to a better future for children and adults.

Economic outcomes, such as wage and salary levels, historically have been determined by the educational attainment of individuals and the skills employers expect of those entering the labor force. Recently, both individuals and society as a whole have placed increased emphasis on educational attainment as the workplace has become increasingly technological and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.

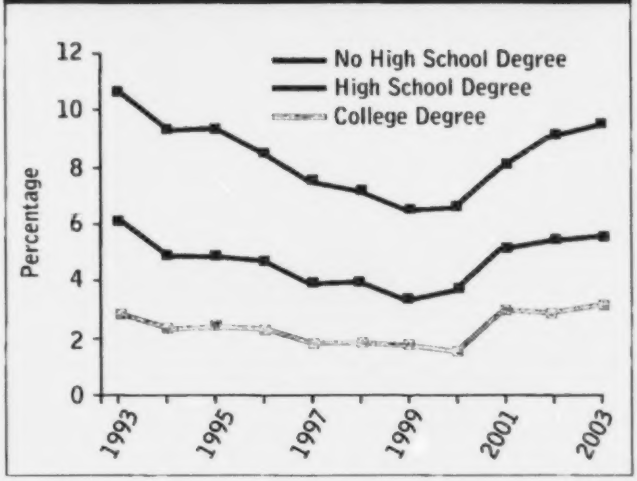
Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the Nation in general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns related to the economy and society include reduced reliance on welfare subsidies, increased participation in civic activities, and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of completing high school and investing in postsecondary education:

Unemployment rate. Persons with lower levels of educational attainment were more likely to be unemployed than those who had higher levels of educational attainment. The 2003 unemployment rate for adults (25 years old and over) who had not completed high school was 9.4 percent compared with 5.4 percent of those with four years of high school and 3.1 percent for those with a bachelor's degree or higher. Younger people with high school diplomas tended to have higher unemployment rates than persons 25 and over with similar levels of education.

Annual Income. For 2001, the median annual income varied considerably by education level. Men with a high school diploma earned $21,580, compared with $56,264 for men with a college degree. Women with a high school diploma earned $16,328, compared with $40,768 for women with a college degree. Men and women with college degrees earned 60 percent more than men and women with high school diplomas. Earnings for women with college degrees have increased by 30 percent, on inflation adjusted basis, since 1979, while those of male college graduates have risen 20 percent. These returns of investing in education directly translate into the advancement of the American economy as a whole.

UNEMPLOYMENT RATE BY EDUCATIONAL LEVEL



Required Supplementary Information

Intragovernmental Assets

Intragovernmental assets at September 30, 2003, consisted of the following:

(Dollars in Thousands)	Fund Balance with Treasury	Accounts Receivable	Other Assets
Trading Partner			
Department of Agriculture	$ -	$ 441	$ -
Department of Justice	-	1,222	-
Department of the Treasury	57,907,733	181	-
National Science Foundation	-	11	27,379
General Services Administration	-	46	-
Independent Agencies	-	1	-
Department of Transportation	-	168	-
Department of Health and Human Services	-	1,311	-
Department of Homeland Security	-	38	-
Department of Defense	-	100	-
Department of Labor	-	4	-
Grand Total	$ 57,907,733	$ 3,523	$ 27,379

Intragovernmental Liabilities

Intragovernmental liabilities at September 30, 2003, consisted of the following:

(Dollars in Thousands)	Accounts Payable	Treasury Debt	Guaranty Agency Federal and Restricted Funds Due to Treasury	Payable to Treasury	Other Liabilities
Trading Partner					
Department of Agriculture	$ -	$ -	$ -	$ -	$ 660
Department of Commerce	3,471	-	-	-	5,129
Department of Interior	91	-	-	-	(133,245)
Department of Justice	4	-	-	-	13,499
Independent Agencies	43	-	-	-	57
Department of State	-	-	-	-	86
Department of the Treasury	373	92,017,728	1,107,481	7,022,995	68,751
Department of the Army	3	-	-	-	(977)
Office of Personnel Management	574	-	-	-	453
Social Security Administration	-	-	-	-	225
Department of Veteran Affairs	2	-	-	-	137
General Printing Office	684	-	-	-	(4,158)
General Services Administration	17	-	-	-	15,361
National Science Foundation	1,647	-	-	-	3,299
United States Post Office	3,043	-	-	-	27,998
Library of Congress	209	-	-	-	574
Department of the Air Force	2,995	-	-	-	-
Department of Transportation	366	-	-	-	2,042
Department of Homeland Security	-	-	-	-	(272)
Executive Office of the President	-	-	-	-	81
Department of Health and Human Services	397	-	-	-	115,506
National Archives and Records Administration	62	-	-	-	-
Department of Housing and Urban Development	-	-	-	-	598
Department of Energy	53	-	-	-	(15)
Department of Labor	87	-	-	-	(11,077)
Other Legislative Branches	-	-	-	-	158
Federal Mediation and Conciliation Service	5	-	-	-	-
Grand Total	$ 14,126	$ 92,017,728	$ 1,107,481	$ 7,022,995	$ 104,870

Intragovernmental Earned Revenues and Related Costs

The Department's intragovernmental earned revenues are not reported by trading partner because they are below the Office of Management and Budget threshold of $500 million.

United States Department of Education
Consolidating Balance Sheet
As of September 30, 2003

(Dollars in Thousands)

	Consolidated	Inter-Reporting Group Eliminations	Federal Student Aid	Office of Elementary & Secondary Education	Office of Special Education & Rehabilitative Services	Office of Vocational & Adult Education	Office of Postsecondary Education	Institute of Education Sciences	Office of English Language Acquisition	Department Management
Assets:										
Intragovernmental:										
Fund Balance with Treasury (Note 2)	$ 57,907,733		$ 22,736,259	$20,459,249	$8,364,053	$1,698,652	$2,884,318	$582,112	$954,807	$228,283
Accounts Receivable (Note 5)	3,523	$(1,077)		150	1,102			535		2,813
Other Intragovernmental Assets	27,379							27,379		
Total Intragovernmental	57,938,635	(1,077)	22,736,259	20,459,399	8,365,155	1,698,652	2,884,318	610,026	954,807	231,096
Cash and Other Monetary Assets (Note 3)	1,107,533		1,107,485							48
Accounts Receivable, Net (Note 5)	179,232		153,685	409						25,138
Credit Program Receivables, Net (Note 4)	97,965,279		97,614,657				350,254			368
General Property, Plant and Equipment, Net (Note 6)	28,255		16,857					111		11,287
Other Assets	38,816		38,816							
Total Assets	$157,257,750	$(1,077)	$121,667,759	$20,459,808	$8,365,155	$1,698,652	$3,234,572	$610,137	$954,807	$267,937
Liabilities:										
Intragovernmental:										
Accounts Payable	$ 14,126	$(1,077)	$ 3,924	$ 4,335	$ 9	$ 93	$ 71	$ 2,263		$ 4,508
Treasury Debt (Note 7)	92,017,728		91,786,731				230,997			
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 3)	1,107,481		1,107,481							
Payable to Treasury (Note 8)	7,022,995		7,022,995							
Other Intragovernmental Liabilities (Note 9)	104,870		772	52,895	2,087	98	160	1,037	$ 30	47,791
Total Intragovernmental	100,267,200	(1,077)	99,921,903	57,230	2,096	191	231,228	3,300	30	52,299
Accounts Payable	285,824		198,714	27,680	22,288	8,762	15,773	8,751	1,131	2,725
Accrued Grant Liability (Note 11)	1,366,498		550,739	256,339	250,397	56,679	168,775	52,610	30,959	
Liabilities for Loan Guarantees (Note 4)	15,431,715		15,431,715							
Federal Employee and Veterans' Benefits	22,265		5,369	1,565	1,755	641	1,113	1,418	207	10,197
Other Liabilities (Note 9)	449,505		319,528	11,188	5,012	4,009	2,732	21,709	595	84,732
Total Liabilities	$117,823,007	$(1,077)	$116,427,968	$ 354,002	$ 281,548	$ 70,282	$ 419,621	$ 87,788	$ 32,922	$149,953
Commitments and Contingencies (Note 19)										
Net Position:										
Unexpended Appropriations (Note 12)	$ 43,931,317		$ 9,813,595	$20,109,258	$8,088,048	$1,630,006	$2,711,555	$525,448	$922,392	$131,015
Cumulative Results of Operations (Note 12)	(4,496,574)		(4,573,804)	(3,452)	(4,441)	(1,636)	103,396	(3,099)	(507)	(13,031)
Total Net Position	$ 39,434,743		$ 5,239,791	$ 20,105,806	$ 8,083,607	$ 1,628,370	$2,814,951	$ 522,349	$ 921,885	$ 117,984
Total Liabilities and Net Position	$157,257,750	$(1,077)	$121,667,759	$20,459,808	$8,365,155	$1,698,652	$3,234,572	$610,137	$954,807	$267,937

United States Department of Education
Consolidating Statement of Net Cost
For the Year Ended September 30, 2003

(Dollars in Thousands)

	Consolidated	Federal Student Aid	Office of Elementary & Secondary Education	Office of Special Education & Rehabilitative Services	Office of Vocational & Adult Education	Office of Postsecondary Education	Institute of Education Sciences	Office of English Language Acquisition	Department Management
Program Costs									
Program A (Enhancement of Postsecondary and Adult Education)									
Intragovernmental Gross Costs	$ 6,625,525	$ 6,568,899			$ 25,992	$ 30,634			
Less: Intragovernmental Earned Revenue	1,534,678	1,533,817			274	587			
Intragovernmental Net Costs	5,090,847	5,035,082			25,718	30,047			
Gross Costs with the Public	26,060,455	21,950,314			1,968,325	2,141,816			
Less: Earned Revenues from the Public	4,971,611	4,954,244			22	17,345			
Net Costs with the Public	21,088,844	16,996,070			1,968,303	2,124,471			
Program A Total Net Cost	$26,179,691	$22,031,152			$1,994,021	$2,154,518			
Program B (Creation of Student Achievement, Culture of Achievement and Safe Schools)									
Intragovernmental Gross Costs	$ 151,797		$ 149,467					$ 2,330	
Less: Intragovernmental Earned Revenue	8,406		8,319					87	
Intragovernmental Net Costs	143,391		141,148					2,243	
Gross Costs with the Public	20,127,851		19,544,373					583,478	
Less: Earned Revenues from the Public	8		8						
Net Costs with the Public	20,127,843		19,544,365					583,478	
Program B Total Net Cost	$20,271,234		$19,685,513					$585,721	
Program C (Transformation of Education)									
Intragovernmental Gross Costs	$ 31,497						$ 31,497		
Less: Intragovernmental Earned Revenue	5,975						5,975		
Intragovernmental Net Costs	25,522						25,522		
Gross Costs with the Public	632,481						632,481		
Less: Earned Revenues from the Public	21						21		
Net Costs with the Public	632,460						632,460		
Program C Total Net Cost	$ 657,982						$657,982		
Program D (Special Education and Program Execution)									
Intragovernmental Gross Costs	$ 19,294			$ 19,294					
Less: Intragovernmental Earned Revenue	1,974			1,974					
Intragovernmental Net Costs	17,320			17,320					
Gross Costs with the Public	11,677,683			11,677,683					
Less: Earned Revenues from the Public	5			5					
Net Costs with the Public	11,677,678			11,677,678					
Program D Total Net Cost	$11,694,998			$11,694,998					
Total Program Net Costs	$58,803,905	$22,031,152	$19,685,513	$11,694,998	$1,994,021	$2,154,518	$657,982	$585,721	$0
Net Cost of Operations (Note 17)	$58,803,905	$22,031,152	$19,685,513	$11,694,998	$1,994,021	$2,154,518	$657,982	$585,721	$0

United States Department of Education
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2003

(Dollars in Thousands)

	Consolidated		Federal Student Aid		Office of Elementary & Secondary Education		Office of Special Education & Rehabilitative Services		Office of Vocational & Adult Education	
	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations
Beginning Balance	$ (3,838,438)	$39,121,204	$ (3,910,830)	$10,225,861	$ (2,413)	$16,102,435	$ (5,423)	$ 7,142,270	$ (1,565)	$1,644,137
Prior Period Adjustments		27,569								
Beginning Balance, As Adjusted	$ (3,838,438)	$39,148,773	$ (3,910,830)	$10,225,861	$ (2,413)	$16,102,435	$ (5,423)	$ 7,142,270	$ (1,565)	$1,644,137
Budgetary Financing Sources										
Appropriations Received		$67,792,467		$25,353,248		$23,825,275		$12,620,009		$1,956,060
Appropriations Transferred - In/Out (+/-)		(1)		(14,699)		4,353		(598)		
Other Adjustments (+/-)		(1,049,180)		(572,369)		(244,712)		(114,558)		(27,425)
Appropriations Used	$ 61,960,742	(61,960,742)	$ 25,178,446	(25,178,446)	$ 19,578,093	(19,578,093)	$ 11,559,075	(11,559,075)	$ 1,942,766	(1,942,766)
Donations/Forfeitures of Cash	155									
Nonexpenditure Financing Sources - Transfers-Out	(4,439)									
Other Financing Sources										
Transfers - in/out Without Reimbursement	(27)									
Imputed Financing (Note 14)	29,979		30,373		106,381		136,905		51,184	
Adjustments to Financing Sources (+/-)	(3,840,641)		(3,840,641)							
Total Financing Sources	$ 58,145,769	$ 4,782,544	$ 21,368,178	$ (412,266)	$ 19,684,474	$ 4,006,823	$ 11,695,980	$ 945,778	$ 1,993,950	$ (14,131)
Net Cost of Operations (+/-)	(58,803,905)		(22,031,152)		(19,685,513)		(11,694,998)		(1,994,021)	
Ending Balances (Note 12)	$ (4,496,574)	$43,931,317	$ (4,573,804)	$ 9,813,595	$ (3,452)	$20,109,258	$ (4,441)	$ 8,088,048	$ (1,636)	$1,630,006

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United States Department of Education
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2003

(Dollars in Thousands)

	Office of Postsecondary Education		Institute of Education Sciences		Office of English Language Acquisition		Department Management	
	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations
Beginning Balance	$ 88,730	$2,487,310	$ (2,887)	$ 599,415	$ (509)	$822,522	$ (3,541)	$ 97,254
Prior Period Adjustments				27,569				
Beginning Balance, As Adjusted	$ 88,730	$2,487,310	$ (2,887)	$ 626,984	$ (509)	$822,522	$ (3,541)	$ 97,254
Budgetary Financing Sources								
Appropriations Received		$2,357,167		$ 450,887		$690,000		$539,821
Appropriations Transferred - In/Out (+/-)						(1,768)		12,711
Other Adjustments (+/-)		(51,515)		(6,374)		(19,274)		(12,953)
Appropriations Used	$ 2,081,407	(2,081,407)	$ 546,049	(546,049)	$ 569,088	(569,088)	$505,818	(505,818)
Donations/Forfeitures of Cash							155	
Nonexpenditure Financing Sources - Transfers-Out	(4,439)							
Other Financing Sources								
Transfers - in/out Without Reimbursement	(27)							
Imputed Financing (Note 14)	92,243		111,721		16,635		(515,463)	
Adjustments to Financing Sources (+/-)								
Total Financing Sources	$ 2,169,184	$ 224,245	$ 657,770	$(101,536)	$ 585,723	$ 99,870	$ (9,490)	$ 33,761
Net Cost of Operations (+/-)	(2,154,518)		(657,982)		(585,721)		(0)	
Ending Balances (Note 12)	$ 103,396	$2,711,555	$ (3,099)	$ 525,448	$ (507)	$922,392	$ (13,031)	$131,015

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United States Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2003

(Dollars in Thousands)

	Combined		Federal Student Aid		Office of Elementary & Secondary Education		Office of Special Education & Rehabilitative Services		Office of Vocational & Adult Education	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:										
Budget Authority :										
Appropriations Received	$67,776,620	$ 16,002	$25,353,248		$23,825,275		$12,620,009		$1,956,060	
Borrowing Authority		21,766,323		$21,726,323						
Net Transfers	(1)		(14,699)		4,353		(598)			
Other										
Unobligated Balance:										
Beginning of Period	4,681,941	7,804,640	3,524,621	7,804,299	824,744		172,248		60,527	
Spending Authority From Offsetting Collections:										
Earned										
Collected	5,387,537	32,977,501	5,303,723	32,954,804	7,836		142		118	
Receivable From Federal Sources	(70,376)	117			(60,538)		(1,422)		(25)	
Change in Unfilled Customer Orders										
Advance received (Collected)	55,386				52,670		1,835		6	
Without advance from Federal Sources	75,636		513		66,887		2,132			
Subtotal	$ 5,448,183	$32,977,618	$5,304,236	$32,954,804	$ 66,855		$ 2,687		$ 99	
Recoveries of Prior Year Obligations	1,277,066	268,890	864,370	268,890	289,493		40,844		15,368	
Permanently Not Available	(6,224,859)	(17,469,952)	(5,706,555)	(17,401,499)	(244,710)		(114,558)		(27,424)	
Total Budgetary Resources (Note 15)	$72,958,950	$45,363,521	$29,325,221	$45,352,817	$24,766,010		$12,720,632		$2,004,630	
Status of Budgetary Resources:										
Obligations Incurred: (Note 15)										
Direct	$67,548,974	$35,597,145	$27,005,648	$35,587,722	$22,003,122		$12,573,972		$1,923,538	
Reimbursable	82,414		513		66,838		2,680			
Subtotal	$67,631,388	$35,597,145	$27,006,161	$35,587,722	$22,069,960		$12,576,652		$1,923,538	
Unobligated Balance:										
Apportioned	2,981,165	395,950	47,684	395,950	2,676,967		135,819		78,000	
Unobligated Balance Not Available	2,346,397	9,370,426	2,271,376	9,369,145	19,083		8,161		3,092	
Total Status of Budgetary Resources	$72,958,950	$45,363,521	$29,325,221	$45,352,817	$24,766,010		$12,720,632		$2,004,630	
Relationship of Obligations to Outlays:										
Obligated Balance, Net, Beginning of Period	$38,961,452	$ 6,811,613	$ 9,918,833	$ 6,786,293	$15,800,344		$ 7,214,774		$1,652,206	
Obligated Balance, Net, End of Period:										
Accounts Receivable	(3,468)	(117)			(150)		(1,127)			
Unfilled customer orders from Federal Sources	(75,636)		(513)		(66,887)		(2,132)			
Undelivered Orders	40,744,171	8,382,449	9,546,177	8,373,221	17,532,766		7,948,059		1,548,920	
Accounts Payable	1,754,967	16,338	786,526	16,338	297,470		275,272		68,640	
Outlays:										
Disbursements	62,890,477	33,741,080	25,727,920	33,715,565	19,811,262		11,529,799		1,942,840	
Collections	(5,442,922)	(32,977,501)	(5,303,723)	(32,954,804)	(60,506)		(1,977)		(123)	
Subtotal	$57,447,555	$ 763,579	$20,424,197	$ 760,761	$19,750,756		$11,527,822		$1,942,717	
Less: Offsetting Receipts	43,599		43,572							
Net Outlays (Note 15)	$57,403,956	$ 763,579	$20,380,625	$ 760,761	$19,750,756	($0)	$11,527,822	($0)	$1,942,717	($0)

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United States Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2003

(Dollars in Thousands)

	Office of Postsecondary Education		Institute of Education Sciences		Office of English Language Acquisition		Department Management	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:								
Budget Authority :								
Appropriations Received	$2,341,165	$16,002	$450,887		$690,000		$539,976	
Borrowing Authority		40,000						
Net Transfers					(1,768)		12,711	
Other								
Unobligated Balance:								
Beginning of Period	57,122	341	6,770		18,331		17,578	
Spending Authority From Offsetting Collections:								
Earned								
Collected	36,158	22,697	33,329				6,231	
Receivable From Federal Sources	(80)	117	(5,680)				(2,631)	
Change in Unfilled Customer Orders								
Advance received (Collected)			833				42	
Without advance from Federal Sources			3,531				2,573	
Subtotal	$ 36,078	$22,814	$ 32,013				$6,215	
Recoveries of Prior Year Obligations	28,119		10,091		14,110		14,671	
Permanently Not Available	(92,579)	(68,453)	(6,186)		(19,273)		(13,574)	
Total Budgetary Resources (Note 15)	$2,369,905	$10,704	$493,575		$701,400		$577,577	
Status of Budgetary Resources:								
Obligations Incurred: (Note 15)								
Direct	$2,324,647	$ 9,423	$481,950		$684,761		$551,336	
Reimbursable			4,645				7,738	
Subtotal	$2,324,647	$ 9,423	$486,595		$684,761		$559,074	
Unobligated Balance:								
Apportioned	25,391		253		10,810		6,241	
Unobligated Balance Not Available	19,867	1,281	6,727		5,829		12,262	
Total Status of Budgetary Resources	$2,369,905	$10,704	$493,575		$701,400		$577,577	
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	$2,713,335	$25,320	$682,761		$832,644		$146,555	
Obligated Balance, Net, End of Period:								
Accounts Receivable		(117)	(745)				(1,446)	
Unfilled customer orders from Federal Sources			(3,531)				(2,573)	
Undelivered Orders	2,651,519	9,228	495,664		905,753		115,313	
Accounts Payable	185,777		83,745		32,415		25,122	
Outlays:								
Disbursements	2,172,647	25,515	586,282		565,126		554,601	
Collections	(36,158)	(22,697)	(34,162)				(6,273)	
Subtotal	$2,136,489	$ 2,818	$552,120		$565,126		$548,328	
Less: Offsetting Receipts	27							
Net Outlays (Note 15)	$2,136,462	$ 2,818	$552,120	($0)	$565,126	($0)	$548,328	($0)

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United States Department of Education
Consolidating Statement of Financing
For the Year Ended September 30, 2003

(Dollars in Thousands)

	Consolidated	Federal Student Aid	Office of Elementary & Secondary Education	Office of Special Education & Rehabilitative Services	Office of Vocational & Adult Education	Office of Postsecondary Education	Institute of Education Sciences	Office of English Language Acquisition	Department Management
Resources Used to Finance Activities									
Budgetary Resources Obligated									
Obligations Incurred (Note 15)	$(103,228,533)	$(62,593,883)	$(22,069,960)	$(12,576,652)	$(1,923,538)	$(2,334,070)	$(486,595)	$(684,761)	$(559,074)
Less: Spending Authority from Offsetting Collections & Recoveries	39,971,757	39,392,300	356,348	43,531	15,467	87,011	42,104	14,110	20,886
Obligations Net of Offsetting Collections & Recoveries	(63,256,776)	(23,201,583)	(21,713,612)	(12,533,121)	(1,908,071)	(2,247,059)	(444,491)	(670,651)	(538,188)
Less: Offsetting Receipts	(43,599)	(43,572)				(27)			
Net Obligations	$ (63,300,375)	$(23,245,155)	$(21,713,612)	$(12,533,121)	$(1,908,071)	$(2,247,086)	$(444,491)	$(670,651)	$(538,188)
Other Resources									
Transfers In/Out Without Reimbursement (+/-)	27					27			
Imputed Financing From Costs Absorbed by Others (Note 14)	(29,979)	(30,373)	(106,381)	(136,905)	(51,184)	(92,243)	(111,721)	(16,635)	515,463
Net Other Resources Used to Finance Activities	(29,952)	(30,373)	(106,381)	(136,905)	(51,184)	(92,216)	(111,721)	(16,635)	515,463
Total Resources Used to Finance Activities	$ (63,330,327)	$(23,275,528)	$(21,819,993)	$(12,670,026)	$(1,959,255)	$(2,339,302)	$(556,212)	$(687,286)	$ (22,725)
Resources Used to Finance Items Not Part of Net Cost of Operations									
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	$ (5,250,604)	$ (1,975,219)	$ (2,074,978)	$ (972,507)	$ 34,720	$ (214,120)	$ 80,545	$(101,563)	$ (27,482)
Resources that Fund Expenses Recognized in Prior Period	(1,257,797)	(1,216,284)	(3,038)	(4,407)	(1,565)	(4,051)	(4,218)	(509)	(23,725)
Credit Program Collections Which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	31,786,034	31,744,588				41,446			
Other (72,162)		(60,538)	(2,580)	(25)	(3)	(5,575)		(3,441)	
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net in Current or Prior Period	(28,064,832)	(28,047,641)				(17,191)			
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (2,859,361)	$ 505,444	$ (2,138,554)	$ (979,494)	$ 33,130	$ (193,919)	$ 70,752	$(102,072)	$ (54,648)
Total Resources Used to Finance the Net Cost of Operations	$ (60,470,966)	$(23,780,972)	$(19,681,439)	$(11,690,532)	$(1,992,385)	$(2,145,383)	$(626,964)	$(585,214)	$ 31,923
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period									
Components Requiring or Generating Resources in Future Periods									
Increase in Annual Leave Liability	$ (25,543)	$ (3,322)	$ (2,070)	$ (2,434)	$ (903)	$ (1,600)	$ (1,587)	$ (270)	$ (13,357)
Upward/Downward Reestimates of Credit Subsidy Expense	(1,317,771)	(1,317,771)							
Increase in Exchange Revenue Receivable from the Public	1,087,940	1,087,940							
Other (+/-)	(10,244)	40,642	(1,787)	(2,032)	(733)	(7,530)	(29,214)	(237)	(9,353)
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	$ (265,618)	$ (192,511)	$ (3,857)	$ (4,466)	$ (1,636)	$ (9,130)	$ (30,801)	$ (507)	$ (22,710)
Components Not Requiring or Generating Resources									
Depreciation and Amortization	$ 1,932,938	$ 1,942,426					$ (217)		$ (9,271)
Other (+/-)	(259)	(95)	(217)			(5)			58
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	$ 1,932,679	$ 1,942,331	$ (217)			$ (5)	$ (217)		$ (9,213)
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	$ 1,667,061	$ 1,749,820	$ (4,074)	$ (4,466)	$ (1,636)	$ (9,135)	$ (31,018)	$ (507)	$ (31,923)
Net Cost of Operations (Note 17)	$ (58,803,905)	$(22,031,152)	$(19,685,513)	$(11,694,998)	$(1,994,021)	$(2,154,518)	$(657,982)	$(585,721)	$0

United States Department of Education
Federal Student Aid
Consolidating Balance Sheet
As of September 30, 2003

(Dollars in Thousands)

	Consolidated	Federal Family Education Loan Program	Direct Student Loan Program	Grant Programs
Assets:				
Intragovernmental:				
Fund Balance with Treasury	$ 22,736,259	$12,687,053	$ 1,273,160	$8,776,046
Total Intragovernmental	22,736,259	12,687,053	1,273,160	8,776,046
Cash and Other Monetary Assets	1,107,485	1,107,485		
Accounts Receivable, Net	153,685	139,584	11,893	2,208
Credit Program Receivables, Net	97,614,657	10,785,912	86,633,897	194,848
General Property, Plant and Equipment, Net	16,857	92	16,765	
Other Assets	38,816	38,816		
Total Assets	$121,667,759	$24,758,942	$87,935,715	$8,973,102
Liabilities:				
Intragovernmental:				
Accounts Payable	$ 3,924	$ 545	$ 3,379	
Treasury Debt	91,786,731		91,786,731	
Guaranty Agency Federal and Restricted Funds Due to Treasury	1,107,481	1,107,481		
Payable to Treasury	7,022,995	7,022,995		
Other Intragovernmental Liabilities	772	373	399	
Total Intragovernmental	99,921,903	8,131,394	91,790,509	
Accounts Payable	198,714	11,506	77,989	109,219
Accrued Grant Liability	550,739			550,739
Liabilities for Loan Guarantees	15,431,715	15,431,715		
Federal Employee and Veterans' Benefits	5,369	2,595	2,774	
Other Liabilities	319,528	19,988	104,693	194,847
Total Liabilities	$116,427,968	$23,597,198	$91,975,965	$ 854,805
Commitments and Contingencies				
Net Position:				
Unexpended Appropriations	$ 9,813,595	$ 1,537,026	$ 160,481	$8,116,088
Cumulative Results of Operations	(4,573,804)	(375,282)	(4,200,731)	2,209
Total Net Position	$ 5,239,791	$ 1,161,744	$ (4,040,250)	$8,118,297
Total Liabilities and Net Position	$121,667,759	$24,758,942	$87,935,715	$8,973,102

United States Department of Education
Federal Student Aid
Consolidating Statement of Net Cost
For the Year Ended September 30, 2003

(Dollars in Thousands)

Program Costs	Consolidated	Federal Family Education Loan Program	Direct Student Loan Program	Grant Programs
Program A (Enhancement of Postsecondary and Adult Education)				
Intragovernmental Gross Costs	$ 6,568,899	$ 482,118	$6,062,657	$ 24,124
Less: Intragovernmental Earned Revenue	1,533,817	457,669	1,076,148	
Intragovernmental Net Costs	5,035,082	24,449	4,986,509	24,124
Gross Costs with the Public	21,950,314	2,818,211	5,051,810	14,080,293
Less: Earned Revenues from the Public	4,954,244	19	4,954,206	19
Net Costs with the Public	16,996,070	2,818,192	97,604	14,080,274
Program A Total Net Cost	$22,031,152	$2,842,641	$5,084,113	$14,104,398
Net Cost of Operations	$22,031,152	$2,842,641	$5,084,113	$14,104,398

United States Department of Education
Federal Student Aid
Consolidating Statement of Net Position
For the Year Ended September 30, 2003

(Dollars in Thousands)

	Consolidated		Federal Family Education Loan Program		Direct Student Loan Program		Grant Programs	
	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations
Beginning Balance	$ (3,910,830)	$10,225,861	$ (201,964)	$1,388,597	$(3,711,170)	$ 175,769	$ 2,304	$ 8,661,495
Beginning Balance, As Adjusted	$ (3,910,830)	$10,225,861	$ (201,964)	$1,388,597	$(3,711,170)	$ 175,769	$ 2,304	$ 8,661,495
Budgetary Financing Sources								
Appropriations Received		$25,353,248		$6,516,826		$5,385,922		$13,450,500
Appropriations Transferred - In/Out (+/-)		(14,699)		(13,749)				(950)
Other Adjustments (+/-)		(572,369)		(413,697)				(158,672)
Appropriations Used	$ 25,178,446	(25,178,446)	$ 5,940,951	(5,940,951)	$ 5,401,210	(5,401,210)	$ 13,836,285	(13,836,285)
Donations/Forfeitures of Cash								
Nonexpenditure Financing Sources - Transfers-Out								
Other Financing Sources								
Imputed Financing	30,373		202,618		(440,263)		268,018	
Adjustments to Financing Sources (+/-)	(3,840,641)		(3,474,246)		(366,395)			
Total Financing Sources	$ 21,368,178	$ (412,266)	$ 2,669,323	$ 148,429	$ 4,594,552	$ (15,288)	$ 14,104,303	$ (545,407)
Net Cost of Operations (+/-)	$(22,031,152)		$(2,842,641)		$(5,084,113)		$(14,104,398)	
Ending Balances	$ (4,573,804)	$ 9,813,595	$ (375,282)	$1,537,026	$(4,200,731)	$ 160,481	$ 2,209	$ 8,116,088

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2003

(Dollars in Thousands)

	Combined		Federal Family Education Loan Program		Direct Student Loan Program		Grant Programs	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:								
Budget Authority :								
Appropriations Received	$25,353,248		$6,516,826		$5,385,922		$13,450,500	
Borrowing Authority		$21,726,323				$21,726,323		
Net Transfers	(14,699)		(13,749)				(950)	
Unobligated Balance:								
Beginning of Period	3,524,621	7,804,299	2,203,316	$ 7,305,301	14,001	498,998	1,307,304	
Spending Authority From Offsetting Collections:								
Earned								
Collected	5,303,723	32,954,804	4,937,253	10,400,299	366,470	22,554,505		
Change in Unfilled Customer Orders								
Without advance from Federal Sources	513				513			
Subtotal	$ 5,304,236	$32,954,804	$4,937,253	$10,400,299	$ 366,983	$22,554,505		
Recoveries of Prior Year Obligations	864,370	268,890	419,020	4,946	6,715	263,944	438,635	
Permanently Not Available	(5,706,555)	(17,401,499)	(5,181,515)	0	(366,395)	(17,401,499)	(158,645)	
Total Budgetary Resources	$29,325,221	$45,352,817	$8,881,151	$17,710,546	$5,407,226	$27,642,271	$15,036,844	
Status of Budgetary Resources:								
Obligations Incurred:								
Direct	$27,005,648	$35,587,722	$6,884,579	$ 8,448,524	$5,380,938	$27,139,198	$14,740,131	
Reimbursable	513				513			
Subtotal	$27,006,161	$35,587,722	$6,884,579	$ 8,448,524	$5,381,451	$27,139,198	$14,740,131	
Unobligated Balance:								
Apportioned	47,684	395,950	2,622	395,950	11,774		33,288	
Unobligated Balance Not Available	2,271,376	9,369,145	1,993,950	8,866,072	14,001	503,073	263,425	
Total Status of Budgetary Resources	$29,325,221	$45,352,817	$8,881,151	$17,710,546	$5,407,226	$27,642,271	$15,036,844	
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	$ 9,918,833	$ 6,786,293	$1,390,896	$ 1,381,889	$ 301,840	$ 5,404,404	$ 8,226,097	
Obligated Balance, Net, End of Period:								
Unfilled customer orders from Federal Sources	(513)				(513)			
Undelivered Orders	9,546,177	8,373,221	1,591,517	922,551	135,285	7,450,670	7,819,375	
Accounts Payable	786,526	16,338	6,071	8,238	120,497	8,100	659,958	
Outlays:								
Disbursements	25,727,920	33,715,565	6,258,866	8,894,678	5,420,794	24,820,887	14,048,260	
Collections	(5,303,723)	(32,954,804)	(4,937,253)	(10,400,299)	(366,470)	(22,554,505)		
Subtotal	$20,424,197	$ 760,761	$1,321,613	$ (1,505,621)	$5,054,324	$ 2,266,382	$14,048,260	
Less: Offsetting Receipts	43,572						43,572	
Net Outlays	$20,380,625	$ 760,761	$1,321,613	$ (1,505,621)	$5,054,324	$ 2,266,382	$14,004,688	($0)

United States Department of Education
Federal Student Aid
Consolidating Statement of Financing
For the Year Ended September 30, 2003

(Dollars in Thousands)

	Federal Student Aid	Federal Family Education Loan Program	Direct Student Loan Program	Grant Programs
Resources Used to Finance Activities				
Budgetary Resources Obligated				
Obligations Incurred	$(62,593,883)	$(15,333,103)	$(32,520,649)	$(14,740,131)
Less: Spending Authority from Offsetting Collections & Recoveries	39,392,300	15,761,518	23,192,147	438,635
Obligations Net of Offsetting Collections & Recoveries	(23,201,583)	428,415	(9,328,502)	(14,301,496)
Less: Offsetting Receipts	(43,572)			(43,572)
Net Obligations	$(23,245,155)	$ 428,415	$ (9,328,502)	$(14,345,068)
Other Resources				
Imputed Financing From Costs Absorbed by Others	(30,373)	(202,618)	440,263	(268,018)
Net Other Resources Used to Finance Activities	(30,373)	(202,618)	440,263	(268,018)
Total Resources Used to Finance Activities	$(23,275,528)	$ 225,797	$ (8,888,239)	$(14,613,086)
Resources Used to Finance Items Not Part of Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	$ (1,975,219)	$ 237,533	$ (1,747,568)	$ (465,184)
Resources that Fund Expenses Recognized in Prior Period	(1,216,284)	2,504,006	(3,720,290)	
Credit Program Collections Which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	31,744,588	12,184,166	19,560,422	
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net in Current or Prior Period	(28,047,641)	(8,970,572)	(19,077,069)	
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 505,444	$ 5,955,133	$ (4,984,505)	$ (465,184)
Total Resources Used to Finance the Net Cost of Operations	$(23,780,972)	$ (5,729,336)	$ (3,903,734)	$(14,147,902)
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period				
Components Requiring or Generating Resources in Future Periods				
Increase in Annual Leave Liability	$ (3,322)	$ (3,322)		
Upward/Downward Reestimates of Credit Subsidy Expense	(1,317,771)	2,893,047	(4,210,818)	
Increase in Exchange Revenue Receivable from the Public	1,087,940		1,087,940	
Other (+/-)	40,642	(2,967)	10	43,599
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	$ (192,511)	$ 2,886,758	$ (3,122,868)	$ 43,599
Components Not Requiring or Generating Resources				
Depreciation and Amortization	$ 1,942,426	$ (63)	$ 1,942,489	
Other (+/-)	(95)			(95)
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	$ 1,942,331	$ (63)	$ 1,942,489	$ (95)
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	$ 1,749,820	$ 2,886,695	$ (1,180,379)	$ 43,504
Net Cost of Operations	$(22,031,152)	$ (2,842,641)	$ (5,084,113)	$(14,104,398)

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Report of Independent Auditors

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

NOV 14 2003

Honorable Roderick Paige
Secretary of Education
Washington, D.C. 20202

Dear Mr. Secretary:

The enclosed reports present the results of the annual audits of the U.S. Department of Education's financial statements for fiscal years 2003 and 2002, to comply with the Government Management Reform Act of 1994 (GMRA). The reports should be read in conjunction with the Department's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of Ernst & Young LLP to audit the financial statements of the Department as of September 30, 2003 and 2002, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*; and the GAO/PCIE *Financial Audit Manual*.

In connection with the contract, we monitored the performance of the audits, reviewed Ernst & Young's reports and related documentation, and inquired of its representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the Department's financial statements, or conclusions about the effectiveness of internal control, whether the Department's financial management systems substantially complied with FFMIA, or on compliance with laws and regulations.

Ernst & Young is responsible for the attached auditor's report dated November 12, 2003, and the conclusions expressed in the related reports on internal control and compliance with laws and regulations. Our review disclosed no instances where Ernst & Young did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Sincerely,

Thomas A. Carter
Deputy Inspector General

Enclosures

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Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

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Report of Independent Auditors

To the Inspector General
U.S. Department of Education

We have audited the accompanying consolidated balance sheets of the U.S. Department of Education (the Department) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2003 and 2002, and its net cost, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented in the Management Discussion and Analysis of the Department, required supplementary stewardship information, and required supplementary information is not a required part of the basic financial statements but is supplementary information required by Office of Management and Budget Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our reports dated November 12, 2003, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Ernst + Young LLP

November 12, 2003
Washington, D.C.

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Report on Internal Control

To the Inspector General
U.S. Department of Education

We have audited the consolidated balance sheets of the U.S. Department of Education (the Department) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended, and have issued our report thereon dated November 12, 2003.

We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determined whether this internal control had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

In addition, with respect to internal control related to performance measures reported in the Management Discussion and Analysis of the Department's consolidated and combined financial statements, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 01-02, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness. The remainder of this report details the reportable conditions.

REPORTABLE CONDITIONS

1. Improvements of Credit Reform Estimation and Financial Reporting Processes are Needed (Modified Repeat Condition)

The Federal Credit Reform Act of 1990, as amended, was enacted to require agencies to more accurately measure and budget for the cost of federal loan programs. In implementing the requirements of the Credit Reform Act, and in complying with Federal accounting standards, agencies are required to estimate the net cost of extending credit over the life of a direct loan or guaranteed loan based on the present value of estimated net cash flows, excluding certain administrative costs. Such costs are also re-estimated on a periodic basis. While improvements were made over the last several years, we noted that the management controls surrounding the calculation and reporting of the loan liability activity and subsidy estimates should be further refined and implemented earlier in the process to ensure that appropriate estimates are prepared. OMB Circular A-123 defines management controls as "the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making."

We noted that the Department made some progress on this reportable condition during FY 2003, including improving the process used to develop required financial statement disclosures, continuing a process to study and adjust key assumptions in the subsidy models, and ultimately involving a broader array of Department managers in critiquing the process and results. A key focus for FY 2004 and beyond is to further refine and document these processes and ensure that such input and critique occurs throughout the year. A well-defined process includes appropriate and robust checks and edits, as well as documentation of key decisions and rationales. Such a process is buttressed by input and substantive involvement by Federal Student Aid (FSA) financial, program and as appropriate trading partner management responsible for the programs and data inputs, as well as the Office of the Chief Financial Officer (OCFO) and Budget Service. Process review controls should be in place and performed before adjustments are recorded or made available for use in making program management decisions. Many of the elements of this process were implemented late in the year, and provide a framework for further improvement throughout FY 2004.

During our testing of loan guarantees, allowance for subsidy, and subsidy costs estimates, we noted the following items that indicate management controls and analysis should be strengthened:

- The long-term cost for the FFEL loan program is reflected in the financial statements through periodic charges for subsidy and recognition of liabilities for loan guarantees. The Department uses a computer-based cash flow projection model and OMB calculator to calculate subsidy estimates related to the program that are then recorded in the liability account. The model uses multiple sources of loan data and hundreds of assumptions. In 2003, the Department performed a review of key assumptions used in the model in such areas as interest benefits, collections, defaults, consolidations, etc. These reviews were in part performed based on certain tools developed by the Department to help validate the output of the credit reform model. For example, the Department uses a standard actuarial technique of "back casting" the subsidy estimates against actual results to research the relationships in the data. In the prior year, this analysis indicated that actual results were varying from the credit reform model output in such areas as interest benefits and collections. In other instances additional assumptions were developed based on improved data gathering capabilities. Based on this review, changes to the assumptions were developed to calculate the subsidy re-estimates which had a related financial statement impact. We noted that there was initially insufficient documentation explaining the basis for developing and selecting the revised assumptions and validating the reasonableness of the resultant output. Some of this documentation was subsequently developed in connection with the audit process. This lack of documentation complicated the review process performed by OCFO, FSA and Budget Service.

- The high volume of activity, multiple sources of data, and sensitivity of assumptions used to record subsidy cost subject the liability and other credit reform related accounts to a significant level of inherent risk of misstatement. We noted several issues that the Department must continue to take into consideration regarding the accuracy of the assumptions and data used in the model. We noted that initial outputs of the model indicated unusual results from those that occurred in the prior year. As a result of subsequent reviews undertaken by the Department, it was determined that, in certain instances, incorrect data was queried to develop assumptions. Standard operational review and signoff of credit reform work products would help alleviate these conditions. The current analytical tools and account analysis procedures used by the Department (like the "back casting" technique described above) are not sufficiently developed to help highlight and explain unusual variations based on the model output. This is particularly the case with the direct loan program for which sufficient historical data has not yet been accumulated.

- The model, as currently specified, is based on multiple inputs and assumptions. While the nuances of the loan programs and presumed interrelationships with economic and other factors lead to much of the complexity, a more simplified approach might well provide estimates in a reasonable range, recognize the imperfections in the data and reduce the possibility of computational errors. Given the numerous model inputs, interpreting its output leads to protracted analysis to explain the resulting output. In addition, the complexity of the model greatly increases the likelihood for computational errors that on balance may not be meaningful to the final estimate. While the approach we suggest might not in the short-term substitute for the existing model, in the interim it might provide a useful analytic tool to challenge at least the directional results of the existing model, and provide support that the computations are appropriate within an order of magnitude.

- The mechanics of credit reform accounting process are such that the new "cost" of a consolidated loan is budgeted in the year the consolidation occurs, but the effects in terms of assumed repayment for the existing loans are recorded currently based on when the projected consolidation will occur. With the significant increase in consolidations in the last four years, the Department must closely monitor and critically assess unusual patterns or changes from anticipated results that are attributable to the impact of loan consolidation assumptions. In FY 2003, the Department completed an analysis of consolidation activity. In the analysis, the Department was able to link cash flows from new consolidated loans to the paid-off underlying loans. As a result of this analysis, the Department was able to refine assumptions for the pattern and timing of consolidation into new FFEL loans and Direct loans. The Department should continue to monitor the actual results against estimates for the consolidation loan prepayment assumption to determine if further refinements are necessary. While this study enhanced the Department's understanding of consolidation activity, and was used as a model input in FY 2003, additional data should still be obtained and evaluated for consolidation activity. Currently, the Department's estimates for collections and disbursements combine cash transactions and consolidations. To properly assess the impact of consolidations on the subsidy costs of the loan programs, separate estimates and comparison to actual results should be made for consolidation and cash activity. Since the credit reform budgetary and accounting treatment as described above can be viewed as not closely tracking the economic substance of the loan programs, particularly in the case of consolidations of defaulted loans which may have a high expected "re-default" rate, we encourage the Department to consider developing and communicating credit reform estimates with alternative scenarios and assumptions.

- Refreshing the model for changes in program participant behavior is a continuing challenge, as is surfacing related issues for potential, legislative, regulatory or policy actions. The Department should formalize processes to identify changes in usage by schools, lenders, servicers, guaranty agencies and borrowers which have the ultimate impact of extending the period of interest subsidy, delaying or transferring default costs between the programs and activities which encourage students to avail themselves of benefits inherent in the design of the programs, or otherwise impact the absolute and relative costs of the loan programs. Modeling the result of such behavioral changes timely will allow the Department to more accurately estimate subsidy costs. For example, during 2003 the Department changed its assumptions for deferments after several years of indicated patterns of higher usage of such loan features.

- We noted that during FY 2003 adjustments were recorded to the liability for loan guarantees and allowance for subsidy accounts that are not required based on how the ending balances in these accounts are determined. These adjustments add to the complexity in the monitoring of balances in these accounts. These adjustments would indicate that additional business rules should be developed and documented for the types of adjustments and frequency of adjustments that should be recorded to these accounts.

- Formalized written procedures are needed to improve communication between OCFO, FSA and Budget Service in monitoring loan estimation accounts, performing routine quality assurance and validation checks of account activity, preparing supporting documents for adjustments, or providing explanation for changes from one year to next in the loan liability and allowance for subsidy estimates. During FY 2003, we noted some improvement in the sharing of loan estimation information among the three organizations. For example, the three organizations worked together in reviewing the data produced by the credit reform model and the resulting financial statement adjustments and disclosures. We noted that this process was informal and not well developed to accomplish the important task of fully reviewing the output generated from the credit reform estimation process. Further, this process was not always performed in a timely manner that is critical in the preparation of the financial statements to meet future reporting deadlines. We did note that this review did identify several instances where data was either incorrectly used in the credit reform model or where assumptions could be improved. Without formal written policies and procedures, the Department increases its risk that financial reporting and loan model estimates are not properly executed to achieve management and program objectives.

Recommendations:

We recommend that the Department of Education perform the following:

1. Preparation of accurate and timely direct loan and loan guarantee subsidy estimates must be a joint effort between Budget Service, OCFO and FSA. The three organizations should collectively develop a business process that assigns both primary and secondary responsibility for developing subsidy estimates and assumptions, and the timely review of the output of the credit reform estimation model. It is important that this process and the results of each review be documented.

2. An important component of the credit reform estimation process is the development of key assumptions used in the model. A formal process should be used to document the development and approval of each key assumption used, as well as the need for the development of new assumptions. This should be an ongoing annual process with key constituents, such as FSA, Budget Service, OCFO, and others as appropriate, involved early each fiscal year so that agreement can be reached on areas for which additional study is required. An important part of this process is to expose such assumptions to critical assessment by Department management and other interested parties in a transparent manner, and develop decision rules regarding when such assumptions are to be changed based on actual results, program revisions, behavioral changes, or the availability of additional data. For key assumptions, transmittal of the credit reform estimates should be accompanied by an analysis of alternative scenarios and assumptions.

3. The Department should continue to identify and gather data to better monitor and report on consolidations, and accelerate studies to validate the basis of assumptions used to determine the effect of loan consolidations, income contingent loan repayment terms, and fixed rate consolidation offers to ensure that subsidy models are updated timely for the best available information.

4. The Department should improve the analytic tools used to monitor direct loans and FFEL, including refining the direct loan backcast and forecast comparison to actual results process, developing analytic tools to validate the appropriateness of the subsidy allowance for direct loans, and improving the analytic tools used to monitor FFEL activity to increase their sensitivity in identifying unusual relationships.

5. The credit reform process should be documented to show the flow of information used, procedures used to develop assumptions and review and approval processes. Further, this documentation should include the automated calculation models, edit processes and quality control measures used in the process. In addition, business rules should be developed and documented to show the types and frequency of adjustments recorded to the liability for loan guarantees and allowance for subsidy

accounts.

6. The use of somewhat simplified credit reform models should be explored. Such models might at a minimum be useful tools to verify the directional and order of magnitude appropriateness of outputs from the existing model, and at the margin might well produce estimates which are sufficiently precise to meet the requirements for credit reform reporting for financial and budgetary purposes, augmented if necessary by special studies.

2. Controls Surrounding Information Systems Need Enhancement (Modified Repeat Condition)

In connection with the annual audit of the Department's fiscal year 2003 financial statements, we conducted a controls review of the information technology (IT) processes related to the significant accounting and financial reporting systems. OMB Circular A-130, *Management of Federal Information Resources*, requires: (1) standard documentation and procedures for certification and accreditation of systems; (2) records management programs that provide adequate and proper documentation of agency activities; (3) agencies to develop internal information policies and procedures and oversee, evaluate, and otherwise periodically review agency information resource management activities; and (4) agency plans to assure that there is an ability to recover and provide service sufficient to meet the minimal needs of users of the system.

The Office of Inspector General reported in the September 2003 audit report, *Department of Education's Implementation of FISMA* (control number ED-OIG/A11-D0003), that the Department has made significant progress in addressing control weaknesses identified in prior audits. OIG has reported that the Department has made progress in several areas, including: finalizing certain documents that support the agency-wide Information Security Program and Certification and Accreditation program; beginning security testing and evaluation of certain systems; beginning the implementation of the computer security incident response program; implementing procedures to periodically test information security controls for certain of the Department's systems, and beginning the installation of intrusion detection systems.

Although significant progress has been made with respect to information technology controls, our work and the OIG findings reinforce that continuous effort is needed to further address control weaknesses related to information technology and systems. In particular, the following suggestions for improvements were noted for technical security controls at the Department:

- The Department's mission critical servers need to be consistently updated with the latest application version updates, virus/data integrity protection packages, and security patches.

- Certain mission critical systems need to be tested for platform and database level common security vulnerabilities and exposures.
- The use of complex passwords should be enforced on all systems across the enterprise.
- Network and host based intrusion detection systems should be deployed to provide meaningful alerts of potential network intrusions and malicious internal network activity.
- Firewall rules should be implemented to logically segregate database servers containing sensitive data from web servers within the web-hosting environment.
- Access controls should be implemented to protect certain mission critical systems from the contractor's untrusted internal networks.
- Security weaknesses identified in prior OIG security reviews should be fully corrected at contractor facilities.

Recommendation:

The Department concurs with the findings issued by the Office of Inspector General's September 2003 audit report, *Department of Education's Implementation of FISMA* (audit control number ED-OIG/A11-D0003) and has corrected some of the weaknesses cited in the report. We recommend that the Department continue efforts to address the security weakness identified by the OIG's FISMA report. Specifically, the Department should implement actions to address the issues outlined above.

OTHER MATTERS:

Additional Improvement Needed in Financial Reporting Processes to Meet Continuing Accelerated Deadlines

We noted significant improvements in the Department's financial reporting and account analysis processes compared to prior years. However, the ongoing acceleration of information due to OMB will require additional improvements. Beginning with the second quarter of FY 2004, the Department will be required to submit quarterly interim financial statements within 21 days after the end of the quarter as part of the requirements of OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. In addition, year-end audited financial statements will be due November 15 beginning in FY 2004.

While the Department has made improvements and was able to accelerate its FY 2003 year-end financial statement preparation process significantly from prior years, we noted several areas where improvements can still be made. These areas include assessing the time frames used for completion of monthly reconciliations as well as the close out of the general ledger and financial statement preparation process. For FY 2003, the Department's internal guidelines indicated that reconciliations prepared within 45 days of month-end were considered timely. Given the ongoing acceleration in the time frame for submission of interim and year-end financial information to OMB and others, the current guidelines do not appear to be sufficient to effectively meet FY 2004 submission requirements. In addition, the Department should examine processes and time frames for closing out the general ledger and preparing financial statements. We noted that the Department shortened the time frames for providing financial statements from approximately 45 days for June financial statements to 17 days for September draft financial statements. Given the increasingly limited time to provide financial statements to OMB on a quarterly basis, implementing additional procedures to sustain the time frames used at the end of FY 2003 appears warranted. In addition, the Department should update and document the procedures developed for the FY 2003 accelerated year-end financial statement preparation process, and assess areas for further improvement. One key estimate, the mid session review Credit Reform estimate, results in significant entries to the financial records, and as discussed earlier, a robust process to develop and review this estimate before it is recorded will significantly enhance the ability of the Department to meet the accelerated deadlines on an ongoing basis.

Recommendation:

1. Review, update, and document the approach to financial reporting used for the FY 2003 year-end financial statements so that this approach will enable the Department to meet the accelerated due dates for interim and year-end financial reports required by OMB. Such an approach may include assessing the need to accelerate procedures for the monthly general ledger close, financial statement preparation, reconciliations, account analysis and other significant financial management activities. The timeliness of receipt of critical information from guaranty agencies, lenders, grantees and other program participants should also be addressed.

STATUS OF PRIOR YEAR FINDINGS

In the reports on the results of the fiscal year 2002 audit of the Department of Education's financial statements, a number of issues were raised relating to internal control. The chart below summarizes the current status of the prior year items:

Figure 1: Summary of FY 2002 Material Weaknesses and Reportable Conditions

Issue Area	Summary Control Issues	FY 2003 Status
Financial Management, Reconciliations and Account Analysis Need to Be Strengthened (Material Weakness)	Significant financial management issues continue to impair the Department's ability to accumulate, analyze, and present reliable financial information. These weaknesses are primarily due to deficiencies in certain of the Department's financial management practices, including inadequate reconciliations and account analysis early in FY 2002. Issues associated with the transition to a new financial management system in FY 2002 also contributed to difficulties in these areas.	Not Considered a Material Weakness – Issues Reported in the Reportable Condition on Credit Reform, Other Matters or in the Management Letter
Improvement of Financial Reporting Related to Credit Reform is Needed (Reportable Condition)	Management controls and analysis need to be strengthened over financial reporting related to credit reform.	Improvements Noted – Modified Repeat Condition Reportable Condition
Controls Surrounding Information Systems Need Enhancement (Reportable Condition)	Improvements are needed in overall information technology security management.	Improvements Noted – Modified Repeat Condition Reportable Condition

We have reviewed our findings and recommendations with Department management. Management generally concurs with our findings and recommendations and will provide a corrective action plan to the OIG in accordance with applicable Department directives.

In addition to the reportable conditions described above, we noted certain other matters involving internal control and its operations that were reported to management in a separate letter dated November 12, 2003.

This report is intended solely for the information and use of the management of the Department, OMB, Congress and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

November 12, 2003
Washington, D.C.

ERNST & YOUNG

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Report on Compliance with Laws and Regulations

To the Inspector General
U.S. Department of Education

We have audited the consolidated balance sheets of the U.S. Department of Education (the Department) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended, and have issued our report thereon dated November 12, 2003.

We conducted our audits in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the Department is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the Department.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. To meet this reporting requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed instances in which the Department's financial management systems did not substantially comply with certain requirements discussed in the preceding paragraph. We have identified the following instance of noncompliance:

The Department has made progress in strengthening controls over information technology processes during FY 2003. However, our work and audit reports prepared by the Office of Inspector General (OIG) identify certain control weaknesses over information technology security and systems that need to be addressed. With respect to technical security controls and security management, the Department needs to test certain mission critical systems for platform and database level common security vulnerabilities and exposures, implement access controls to protect certain mission critical systems, consistently update mission critical servers with the latest application version updates, virus/data integrity protection packages, and security patches, deploy certain detection systems to provide meaningful alerts of network intrusions, implement firewall rules to segregate database servers containing sensitive data from web servers, and fully correct security weaknesses at contractor facilities identified in prior OIG security reviews. The Department believes that they have made sufficient progress in resolving previously identified IT security weaknesses in order to remove the IT Security Program as a material weakness in its FY 2003 Federal Managers' Financial Integrity Act report; however, they acknowledge that IT security material weaknesses remain under the Federal Information Security Management Act and related IT security laws and regulations.

The Report on Internal Control includes additional information related to the financial management systems that were found not to comply with the requirements of FFMIA relating to information technology security and controls. It also provides information on the responsible parties, relevant facts pertaining to the noncompliance with FFMIA, and our recommendations related to the specific issues. We have reviewed our findings and recommendations with management of the Department. Management concurs with our recommendations and to the extent findings and recommendations were noted in prior years has provided a proposed action plan to the Office of Inspector General in accordance with applicable Department directives.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Department, OMB, Congress and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

November 12, 2003
Washington, D.C.

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202-______

NOV 1 2 2003

MEMORANDUM

TO: Thomas A. Carter
Deputy Inspector General

FROM: Jack Martin Jack Martin
Chief Financial Officer

William Leidinger
Assistant Secretary for Management and Chief Information Officer

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2003 and 2002 Financial Statement Audit
U.S. Department of Education
ED-OIG/A17D0007

The Department has reviewed the draft Fiscal Years 2003 and 2002 Financial Statement Audit. We concur and agree with these reports.

We will share the final audit results with responsible senior officials, other interested program managers, and staff. At that time we will also request that they prepare corrective action plans to be used in the resolution process.

Please convey my appreciation to everyone on your staff who worked diligently on our financial statement audit. Please contact Mark Carney at 401-3892 with questions or comments.

Other Statutorily Required Reports

Report to Congress on Audit Follow-up

The Inspector General Act, as amended, requires that the Secretary report to Congress on the final action taken for the Inspector General audits. With this *Performance and Accountability Report*, the Department of Education is reporting on audit follow-up activities for the period October 1, 2002, through September 30, 2003.

The Audit Accountability and Resolution Tracking System (AARTS) is the Department's single database system used for tracking, monitoring, and reporting on the audit follow-up status of the General Accounting Office (GAO) audits; the Office of the Inspector General (OIG) issued internal audits, external audits, and alternative products; and Single Audits. AARTS has replaced the two former Department tracking systems—the Internal Audit Electronic Corrective Action Plan System and the Common Audit Resolution System. AARTS functionalities allow the following:

- Tracking of internal, external, GAO, sensitive, and alternative product types from inception to final disposition.
- Evaluation and escalation points for audit reports and recommendations at appropriate levels in the user hierarchy.
- Notifying users of audit decisions and approaching/expired events and transactions.
- Downloading report and query results into electronic file formats.
- Attaching files to the audit record.
- Providing a personal portal (Digital Dashboard) for user-assigned transactions.
- Providing a search function to query application (Audit Report) data.
- Providing for both a defined and an ad hoc report generation environment.

Number of Audit Reports and Dollar Value of Disallowed Cost. At the start of this reporting period, the balance for audit reports with disallowed costs totaled 123, representing $98.4 million. (Disallowed costs are costs that management has sustained or agreed should not be charged to the government). By the end of the reporting period, the balance had decreased to 80 audits, representing $71.5 million. The information in the table below represents audit reports for which receivables were established.

Final Actions on Audits with Disallowed Costs for Fiscal Year Ending September 30, 2003

	Number of Reports	Disallowed Costs
Beginning Balance as of 10/1/2002	123	$ 98,402,652
+ Management Decision	167	18,786,357
Pending Final Action	290	$117,189,009
- Final Action	210	45,678,465
Ending Balance as of 9/30/2003	80	$ 71,510,544

Number of Audit Reports and Dollar Value of Recommendations That Funds Be Put to Better Use. The Department does not have any activity to report in this category during this fiscal year.

Reports Pending Final Action One Year or More After Issuance of a Management Decision. As of September 30, 2003, the Department has a total of nine OIG internal and nationwide audit reports on which final action was not taken within a year after the issuance of a management decision; 12 1/2 percent were over two years old. Many corrective actions are dependent upon major system changes that are currently being implemented. For detailed information on these audits, refer to the Department's Semiannual Report to Congress on Audit Follow-up Number 29.

Credit Management and Debt Collection Improvement Act

The Department of Education has designed and implemented a comprehensive credit management and debt collection program that enables us to effectively administer our multibillion-dollar student loan and other programs. The credit management and debt collection program covers each phase of the credit cycle—including prescreening of loan applicants, account servicing, collection, and close-out—and it conforms to the governmentwide policies in the Federal Claims Collection Standards, the Office of Management and Budget (OMB) Circular A–129, and the Debt Collection Improvement Act (DCIA). The Department has made significant strides in student loan default management and prevention.

The Department has been working diligently with schools and the lending community to reduce the cohort default rate. The FY 2001 cohort default rate dropped to an all-time low of 5.4 percent, well below our target rate of 8.0 percent. The low default rate is a function of the Department's improved borrower counseling and the steps we have taken in gatekeeping to remove schools with high rates from participating in the federal student loan programs.

Borrowers who default on student loans face serious repercussions, such as the withholding of federal income tax refunds and other federal payments, wage garnishment, adverse credit bureau reports, denial of further student aid, and prosecution. To avoid these sanctions, defaulters now have the option to consolidate their loans and establish an income-based repayment plan that more realistically matches their ability to pay.

The Department also continues to conduct computer matches with other federal agencies as part of our effort to strengthen the management and oversight of student financial assistance programs. The computer matches are designed to ensure that students meet various eligibility criteria and to increase the collections from students who have defaulted on their loans.

The Department of Education categorizes our debt into two basic categories: student loan debt, which accounts for approximately 99 percent of all of the Department's outstanding debts, and institutional and other administrative debt. The Department of Treasury granted the Department a permanent exemption from the cross-servicing requirements of the DCIA for defaulted student loans and approval to continue to service our own internal student loan debts because of our successful track record. However, we have been referring eligible student loan debts—those we previously tried to collect using all other available tools—to the Department of Treasury for tax refund offset since 1986.

The Department handles our institutional and administrative debts outside of the systems established for student loans. The Department was one of the first to participate in the Treasury Cross Servicing Program and has been referring delinquent debts since October 1996. As of September 30, 2003, we have forwarded approximately 93 percent of all institutional and administrative debts eligible for cross servicing to Treasury.

Improper Payments Reporting

For the past several years, Federal Student Aid (FSA) has performed risk analyses to determine its estimate of improper payments and to demonstrate that its program funds were materially spent in accordance with laws and regulations.

The Department has completed the following required steps:

- Identified those programs and activities that are susceptible to significant erroneous payments.
- Implemented a plan to reduce improper payments.
- Reported estimates of the annual amount of improper payments in programs and activities and showed continued progress in eliminating them.

FSA's improper payments rate is estimated to be less than 1.2 percent. (See detailed chart on page 194.) The majority of this amount is comprised of estimates of over- and underpayments, based on the possible under- and overreporting of applicant income. To address this issue, the Department, OMB, and the Treasury Department developed and submitted to Congress proposed legislation to authorize the matching of Title IV Student Financial Assistance applicant data to tax return data. Passage of this legislation will further reduce the minimal rate of improper payments in these programs.

Federal Student Aid Gross Risk Assessment

(Funding Amounts from FY 04 U.S. Budget)

(Dollars in Thousands)

	FY 02 Disbursement Amount	Number of Awards	Audit Requirement (Yes/No)[1]	Audit Reliability[2]	Reliability of Other Monitoring[3]	Reliability of Internal Controls[4]	Estimated Overawards	Estimated Underawards	% of Program[5]	Risk of Erroneous Payments
Group I. Payments to Students/Borrowers										
Pell Grants	$ 11,619,188	4,639	Yes				$ 328,400	$ 49,100	3.25	
Campus-Based Programs[6]										
Work Study	1,212,993	1,073	Yes							
SEOG	917,722	1,189	Yes							
Perkins Loans	1,264,889	707	Yes							
LEAP	171,000	171	Yes							
Guaranteed Student Loans										
Stafford Loans	13,441,179	3,084	Yes							
Unsubsidized Stafford Loans	11,975,791	2,199	Yes							
PLUS	3,188,637	334	Yes							
Direct Loans										
Stafford Loans	5,764,737	1,324	Yes							
Unsubsidized Stafford Loans	4,480,553	878	Yes							
PLUS	1,443,527	153	Yes							
Consolidation[7]										
FFEL	22,693,425	308	No							
Direct Loans	8,844,598	357	No							
Non-Program Specific Liabilities/Errors							92,000			
Subtotal	$ 87,018,239	16,416					$ 420,400	$ 49,100	0.54	
Group II. Payments to Partners										
Administrative Payments to Schools										
Pell Grants	$ 23,195									
Work Study	75,815									
SEOG	36,709									
Perkins Loans	50,596									
Payments to Guarantors and Lenders										
FFEL Interest Benefits	2,170,852		Yes							
FFEL Special Allowance	220,827		Yes							
FFEL Default Claims	2,873,571		Yes							
FFEL Death, Disability, Bankruptcy	446,323		Yes							
Non-Program Specific Liabilities/Errors							13,000			
Subtotal	$ 5,897,888						$ 13,000	$ -		
Total	**$92,916,127**						**$433,400**	**$49,100**	**0.52**	

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[1] Funds are disbursed to students/borrowers via schools (exception: consolidated loans & foreign school student loans), which are required to submit annual compliance audits.

[2] Low, Medium, High. Low = program office has little confidence significant problems are detected; Medium = some confidence but deficiencies that must be addressed exist; High = office believes audits provide reasonable assurance that significant problems are detected.

[3] Low, Medium, High. Includes oversight activities such as program reviews. Low = insufficient number or no targeting; Medium = moderate effectiveness; High = sufficient number and effective targeted selection. Medium may indicate things such as targeted selection but insufficient numbers or staff lack training or other deficiency.

[4] Low, Medium, High. Refers to applicant or payment systems controls. Low = inadequate edits, data matches or ceilings; Medium = significant controls but problems exist; High = strong data edits, data matches and data review.

[5] The percentage reported by Program Analysis Division may differ as a different total Pell disbursement amount may be used. No sampling done in other programs but identified liabilities listed as Non-Program Specific.

[6] Programs directly administered by schools and institutional matching funds required. Federal capital contributions are only a percentage of available funds.

[7] The volume of consolidated loans has decreased sharply since FY 02, with FY 04 total consolidated loan estimates at about 61% of FY 02 levels (57% for FFEL, 69% for DL).

Appendix A

Performance Data Tables

Appendix A

Performance Data Tables

Key to Tables in Appendix A

/// = Data for this measure are provided by a periodic collection that is not annual or the collection has not yet begun.

--- = Data are unavailable and not expected.

M = Million

Tables contain data for 1999 – 2003, to the extent that measures were in place for those years.

Bolded entries represent data not previously reported in an annual performance report.

Key to Documentation in Appendix A

Source. Identifies the original source(s) of the data provided in the corresponding table.

Data Quality. Includes information such as how data were collected, calculated, and reviewed; data strengths and limitations; and plans for improvement of data quality.

Related Information. Identifies the location of supplementary information about the topic addressed by the performance measure(s).

Additional Information. Provides relevant background about a measure. Also provides an explanation for unmet targets and actions being taken or planned to address the shortfall. Where data are not yet available, the section provides the date by which data are expected to be available.

Objective 1.1: Link Federal Funding to Accountability

1.1.1 Percentage of states with complete accountability systems as required by the No Child Left Behind Act

Fiscal Year	Actual
2002	---
2003	**100**
We exceeded our 2003 target of 40.	

Source. Department of Education, Office of Elementary and Secondary Education (OESE), Program files.

Data Quality. OESE, which administers the Title I program, maintains records of peer reviews and final approvals of state accountability systems.

Related Information. Final regulations for No Child Left Behind (NCLB) state accountability systems are available at http://www.ed.gov/legislation/FedRegister/finrule/2002-3/070502a.html.

Additional Information. The NCLB establishes the framework for a school accountability system for all states, the District of Columbia, and Puerto Rico.

Actual data for measure 1.1.1 reflect the percentage of states that have accountability plans that were approved by the Department by June 2003. These plans are currently being implemented by all states on a continuous basis.

1.1.2 Percentage of Department programs reviewed under the PART process that demonstrate effectiveness[1]

Fiscal Year	Actual
2002	22
2003	Target is 40.
Data for 2003 are pending.	

1.1.3 Percentage of Department program dollars associated with programs reviewed under the PART process that demonstrate effectiveness[2]

Fiscal Year	Actual
2002	46
2003	Target is 60.
Data for 2003 are pending.	

Source. Department of Education, Analysis of Program Assessment Rating Tool (PART) findings.

Data Quality. Only programs for which PART reviews are complete are eligible to be identified as effective. PART analysis began in 2002. Over the five-year period 2002 through 2006, the Department will conduct PART analyses on all programs.

Effective is defined as a score of at least 50 percent on Section IV of the PART, which evaluates program results. Measure 1.1.2

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[1] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified the statement of this measure to be consistent with OMB's use of the PART to measure program effectiveness. Actual data values for the prior year were recomputed under the new definition and targets were modified for consistency.

[2] *Ibid.*

compares the number of effective programs to the total number of programs that were reviewed under the PART. Measure 1.1.3 compares the appropriations for the effective programs to the appropriations for all programs that were reviewed under the PART. FY 2002 data reflect FY 2002 appropriations and programs that had PART reviews conducted during FY 2002. Appropriation amounts include only program budget authority and exclude salaries and expenses budget authority. FY 2003 data, when available, will reflect FY 2003 appropriations and programs that had PART reviews conducted during or prior to FY 2003. Data for 2002 have been revised to reflect final PART scores. (The *FY 2002 Performance and Accountability Report* used preliminary PART scores.)

For many programs that do not demonstrate effectiveness, the Department has not yet collected sufficient performance data. No conclusion should be drawn that programs that did not meet this standard for *effective* are ineffective.

Related Information. Information about the Office of Management and Budget (OMB) PART process is available at http://www.whitehouse.gov/omb/budintegration/part_assessing2004.html.

Additional Information. Data for FY 2003 are expected in February 2004. The NCLB made significant changes to most of the Department's elementary and secondary education programs. We expect to see major improvements in performance information over the next two years as performance measures are improved, data on the first full year of implementation of NCLB become available, and the Performance-Based Data Management Initiative becomes operational.

Objective 1.2: Flexibility and Local Control

1.2.1 Percentage of school districts utilizing Local-Flex, Transferability or Rural Flexibility[3]

Fiscal Year	Actual
2002	---
2003	Target is to set the baseline.[4]
Data for 2003 are pending.	

Source. Department of Education, Office of Elementary and Secondary Education, Consolidated State Performance Reports.

Data Quality. Department of Education staff review Consolidated State Performance Reports submitted by state educational agencies and local educational agencies (LEAs). Data are validated against internal review procedures. An aggregate percent of school districts using Local-Flex, Transferability, or Rural Flexibility will provide an unduplicated count of districts across these three initiatives.

Related Information. More information on flexibility programs is available at http://www.ed.gov/nclb/freedom/local/flexibility/index.html.

More information on Rural Education Achievement Program (REAP) is available at http://www.ed.gov/programs/reapsrsa/index.html.

Additional Information. Baseline data for 2003 will be available April 2004.

These measures are based on the provisions for the REAP, the Local Flexibility Demonstration Program (Local-Flex), and Local Transferability Provisions. Although REAP was initially implemented under the Improving America's Schools Act (IASA) in 2001, its provisions were modified under NCLB. Under NCLB, eligibility for REAP was expanded to include multiple criteria and the programs covered by this flexibility authority were changed to encourage states and LEAs to apply for REAP. Since school year (SY) 2001–02 REAP activity was based on IASA provisions, the Department decided to collect data starting with SY 2002–03, when regulations under NCLB were fully implemented.

The Transferability Authority was authorized under NCLB and available to districts starting with SY 2002–03. (The Department published guidance for this activity in the fall of 2002.) The baseline year for this activity is SY 2002–03; data will be reported in the spring of 2004.

The Local-Flex program was authorized under NCLB and available for SY 2002–03. However, the first recipients will not be approved until the fall of 2003. The baseline year is SY 2003–04.

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[3] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department modified this measure statement to include all of the major flexibility provisions under NCLB and modified the 2003 target to set the baseline.

[4] The baseline for REAP and the Transferability Authority will be set in FY 2003; the baseline for Local-Flex will be set in FY 2004.

1.2.2 (Discontinued[5]) Number of states approved for Ed-Flex

Fiscal Year	Actual
1999	12
2000	13
2001	9
2002	10
2003	**10**
We did not meet our 2003 target of 20.	

Source. Department of Education, Office of Elementary and Secondary Education, Consolidated State Performance Reports.

Data Quality. The Department did not receive any new Ed-Flex applications during FY 2003, but existing approvals remained valid; thus, the actual data for 2003 is the same as the actual data for 2002.

Related Information. Information on Ed-Flex Partnership Act Resources is available at http://www.ed.gov/nclb/freedom/local/flexibility/index.html#edflex.

Additional Information. Ed-Flex was first enacted in 1994 as a demonstration program in the Goals 2000: Educate America Act and was limited to 12 states. By statute, states receive Ed-Flex authority for up to five years. The Education Flexibility Partnership Act of 1999 allowed any state educational agency that met the eligibility criteria to receive Ed-Flex authority. In 1999, states participating in the demonstration program lost the Ed-Flex waiver if the stronger accountability provisions of the Education Flexibility Partnership Act were not met.

States are eligible to apply for the Ed-Flex waiver if Title I standards and accountability requirements such as Adequate Yearly Progress and approved accountability systems are met.

The Department discontinued this measure effective FY 2004 and we are focusing our flexibility efforts on the flexibility provisions provided in NCLB, which are measured by 1.2.1.

1.2.3 OMB burden hour estimates of Department program data collections per year

Fiscal Year	Actual
1999	42.07 M
2000	40.93 M
2001	40.65 M
2002	38.40 M
2003	**39.06 M**
We did not meet our 2003 target of 38 M.	

Source. Department of Education, Office of the Chief Information Officer (OCIO), program files.

Office of Management and Budget (OMB), Burden calculations.

Data Quality. Data are validated by internal review procedures of the Regulatory Information Management Group of the OCIO. Data are estimated for all of the Department's data collections from the public. The Department makes initial estimates, and OMB later confirms those estimates or provides revised estimates. In the table above, data for 2003 are based on the Department's estimates. OMB will confirm these estimates or provide revised estimates in late November 2003.

Related Information. The information collection document that outlines all OMB-approved collection efforts, as well as those collections waiting for OMB approval (pending), are available at http://edicsweb.ed.gov.

Additional Information. Overall, the Department reduced the burden hours for collections compared to FY 2002 collection requirements and regulations. The 39.06 million figure includes 1.01 million hours that resulted from new data collections required for NCLB and other Department programs and an increase in the number of loan and grant applicants during FY 2003. These factors and others have and will most likely continue to result in an increase in burden hours for existing collections. In light of these factors, the Department plans to revise its targets for FY 2004 and FY 2005.

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[5] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department discontinued this measure effective FY 2004.

1.2.4 Percentage of Department grantees that express satisfaction with ED customer service

Fiscal Year	Actual
2002	63
2003	**68**
We exceeded our 2003 target of 65.[6]	

Source. Department of Education, Survey on Satisfaction of Chief State School Officers, 2002.

Department of Education, Survey on Satisfaction with the U.S. Department of Education, 2003.

Data Quality. The Department collected data for this measure from a questionnaire distributed to the Chief State School Officer, the Title I State Director, the Adult Education State Director, the Career and Technical State Director, the State Director of Special Education, and the Coordinator of IDEA Early Intervention in each state, for a total of over 300 surveys. The questionnaire asked about satisfaction with customer service, technical assistance, Web utilization, and documentation. The survey was developed and results were tabulated and processed by a contractor with expertise in survey development and analysis.

Additional Information. Data for this measure were collected and reported as disaggregated statistics for each of the six groups surveyed and as an aggregated statistic. The statistic the Department used to measure against the FY 2003 target of 65 was the Chief State School Officers' statistic of 68 percent satisfaction. The FY 2002 baseline of 63 percent as well as the FY 2003 target were set using the Chief State School Officers' response to the 2002 survey, the first year the survey was administered. To measure change over time in reporting on the FY 2003 target, the Department used equivalent populations.

The aggregated statistic of the six groups' satisfaction with the Department was 77 percent satisfaction, which provides the most comprehensive picture of satisfaction with the Department. The Department plans to revise its targets for FY 2004 and FY 2005. The new targets will reflect the survey's larger universe of respondents and represent a more complete measure.

Objective 1.3: Information and Options for Parents

1.3.1 Percentage of parents who report having the information they need to determine the effectiveness of their child's school

Fiscal Year	Actual
2002	---
2003	---[7]
Data are unavailable and not expected.	

Additional Information. The Department did not develop a measurement tool for this measure and plans to discontinue the measure effective FY 2005.

1.3.2 Percentage of students in grades K–12 that are attending a school (public or private) that their parents have chosen[8]

Fiscal Year	Actual
1999	26
2000	NA
2001	26
2002	---
2003	Target is 19.
Data for 2003 are pending.	

Source. Department of Education, National Center for Education Statistics (NCES), National Household Education Surveys Program (NHES), Parent Survey, 1999.

Department of Education, National Center for Education Statistics, National Household Education Surveys Program (NHES), Before- and After-School Programs and Activities Survey, 2001.

Data Quality. NHES is a national random digit dialed telephone data collection program sponsored by the NCES. When properly weighted, the data are representative of all civilian, noninstitutionalized persons in the United States. The weighted response rate for the Parent Survey, 1999, was 65 percent. The weighted response rate for the Before- and After-School Programs and Activities Survey, 2001, was 60 percent.

Data for 2003 will provide data on K–8 only, not the specified

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[6] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department replaced TBD, which appeared in our *2003 Annual Plan*, with a numerical target.

[7] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department modified the 2003 target to be to set the baseline because the baseline was not previously set.

[8] The Department established this measure for grades K–12; beginning in 2002, data will be available for only grades K–8.

K–12 population of the current measure. Data for K–12 are no longer available.

Related Information. The NHES Web site is http://nces.ed.gov/nhes/.

Information on the Parent Survey, 1999, is available at http://nces.ed.gov/nhes/surveytopics_school.asp.

Information about the Before- and After-School Programs and Activities Survey, 2001, is available at http://nces.ed.gov/nhes/surveytopics_school.asp.

Additional Information. The NHES 2003 data will be available in February 2004.

Actual data for 1999 were revised because updates include both public and private schools while the previously reported figure included only public schools.

1.3.3 Number of children attending charter schools

Fiscal Year	Actual
1999	252,000
2000	478,000
2001	546,000
2002	575,000
2003	**684,495**
We made progress in meeting our 2003 target of 828,000.	

Source. Center for Education Reform, *National Charter School Directory 2002–2003* (2002 and 2003 data).

Department of Education, Program files (2000 and 2001 data).

Department of Education, *State of Charter Schools 2000: Fourth-Year Report* (1999 data).

Data Quality. Initially, the Department collected charter school enrollment data through a four-year national study of charter schools. The 1999 data were taken from the last such study entitled *State of Charter Schools 2000: Fourth-Year Report*. For FY 2000 and FY 2001, the Department used data that were collected, validated, and reported by the states. States have varying methods for collection and varying standards for defining charter schools and enrollment. FY 2002 and 2003 data have been provided by the Center for Education Reform, which collected data by a telephone survey using methods similar to those used by the Department in FY 2000 and 2001.

Related Information. The Center for Education Reform's statistics and highlights page offers current-year enrollment figures. They are available at http://www.edreform.com/index.cfm?fuseAction=stateStatChart&psectionid=15&cSectionID=44.

The Department sponsors an independent Web site that provides information about charter schools. It is available at http://www.uscharterschools.org/.

The NCES Common Core of Data (CCD) collects information on charter schools as part of its Public School Universe data collection. Information on the CCD is available at http://nces.ed.gov/ccd/.

The *State of Charter Schools 2000: Fourth Year Report* is available at http://www.ed.gov/pubs/charter4thyear/.

Additional Information. The Center for Education Reform counts enrollment at the beginning of each school year. FY 2003 data for this measure are taken from the Center for Education Reform's statistics for SY 2002–03. SY 2002–03 data are used because they measure actual enrollment in FY 2003, which covers October 2002 to September 2003. The Center published updated enrollment statistics for SY 2002–03 in January 2003.

The growth in the number of children enrolled in charter schools and the number of new charter schools has continued over the last five years, although not as dramatically as in the early days of the charter school movement. This trend is dependent largely on state legislatures, who maintain authority to pass laws authorizing the creation of charter schools. Although some states have successfully amended their state statutes to either increase or remove the cap on the number of charter schools, other states have not been as successful. In states and cities where there are large numbers of charter schools, it has become increasingly difficult for charter school developers to secure adequate facilities.

The Department continues to employ a number of information-sharing strategies to assist states in furthering their charter school efforts, including providing testimony by Department staff to state legislatures, providing information to state charter school organizations, and inviting state legislators to attend the Department's Annual Charter School Conference. The

President's 2004 budget request also included a substantial increase in funds for the Credit Enhancement for Charter Schools Facilities Program.

1.3.4 Of eligible children, the percentage using supplemental educational services under the provisions of Title I

Fiscal Year	Actual
2002	Target is to set the baseline.
Data for 2003 are pending.	

Source. Department of Education, Title I Accountability Systems and School Improvement Efforts (TASSIE)—Survey Question D56.

Data Quality. Data from TASSIE are from a nationally representative sample of local educational agencies.

Related Information. Information on TASSIE is available at http://www.tassieonline.org/.

Additional Information. Eligible children are low-income children who attend a school in its second year of "school improvement" status under the Elementary and Secondary Education Act (ESEA) Title I or in a school where supplemental services are being offered during the school's first year in "school improvement" status. This provision went into effect September 2002 for SY 2002-03. Data will be available in April 2004.

Objective 1.4: Use Of Scientifically Based Research

1.4.1 (Discontinued[9]) Percentage of Department programs that have developed and disseminated research-based "what works" guides to their grantees

Fiscal Year	Actual
2002	0
2003	**0**
We did not meet our 2003 target of 25.	

1.4.2 (Discontinued[10]) Percentage of "what works" guides that are deemed to be of high quality by an independent review panel of qualified scientists

Fiscal Year	Actual
2002	0
2003	0
We did not meet our 2003 target of 95.	

Source. Department of Education, Office of English Language Acquisition, Office of Special Education and Rehabilitative Services, Institute of Education Sciences (IES), and Office of Elementary and Secondary Education, Program files.

Additional Information. The Department did not implement the "what works" guides project and discontinued this measure effective FY 2004. Also see measure 4.2.2 on page 215 for a related measure.

Objective 2.1: Reading Achievement

2.1.1 – 2.1.6 Number of states meeting their targets for third-grade reading achievement

Fiscal Year	All Students	Low-Income Students	African American Students	Hispanic Students	Students with Disabilities	English Language Learners
2002	///	///	///	///	///	///
2003	Target is 45.	Target is 45.	Target is 45.	Target is 45.	Target is 45.	Target is 45.
	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.

Source. Department of Education, Consolidated State Performance Reports.

Data Quality. States submit Consolidated State Performance Reports to the Office of Elementary and Secondary Education for review. Internal review standards guide review and reporting of data from these reports.

Related Information. Information on the Consolidated State Performance Reports can be obtained at http://www.ed.gov/admins/lead/account/consolidated/index.html#csp.

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[9] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department discontinued this measure effective FY 2004.

[10] *Ibid.*

Information on the National Assessment of Educational Progress (NAEP) can be obtained at http://www.nces.ed.gov/nationsreportcard/.

Additional Information. First-year data for 2003 are expected to be available in January 2004.

Starting with SY 2002–03, each state is required to set the same annual achievement target for all students and for several student subgroups. State targets are based on assessments from SY 2001–02. The first tests that measure against these targets were administered in the spring of 2003 for SY 2002–03. Therefore, FY 2003 is the first year for which state-level data will be available. Some states have issued a State Report Card that includes their annual assessment and achievement data.

Under NCLB, state targets must increase at least every 3 years for the next 12 years, when 100 percent of all students within all subgroups are expected to achieve proficiency. Therefore, although the targets listed above are stable, student achievement will actually need to improve steadily to meet these targets.

States are not required to administer reading assessments for third graders until SY 2005–06; therefore, the targets and data reflect elementary school reading achievement until FY 2006.

2.1.7 – 2.1.12

Percentage of fourth-grade public school students scoring at or above the *Proficient* and *Basic* levels on the NAEP reading assessment

Fiscal Year	All Students		Low-Income Students		African American Students	
	Proficient	***Basic***	***Proficient***	***Basic***	***Proficient***	***Basic***
2000	28	57	13	38	9	34
2001	///	///	///	///	///	///
2002	**30**	**62**	**16**	**46**	**13**	**41**
2003	**30**	**62**	**15**	**44**	**12**	**39**
	We met our 2002 target of 30. We did not meet our 2003 target of 31.	We met our 2002 target of 60. We met our 2003 target of 61.	We met our 2002 target of 14. We met our 2003 target of 15.	We exceeded our 2002 target of 40. We exceeded our 2003 target of 41.	We met our 2002 target of 11. We met our 2003 target of 12.	We exceeded our 2002 target of 36. We met our 2003 target of 37.

2.1.13 – 2.1.18

Percentage of fourth-grade public school students scoring at or above the *Proficient* and *Basic* levels on the NAEP reading assessment

Fiscal Year	Hispanic Students		Students With Disabilities		Limited English Proficient Students	
	Proficient	***Basic***	***Proficient***	***Basic***	***Proficient***	***Basic***
2000	13	36	8	23	3	18
2001	///	///	///	///	///	///
2002	**16**	**45**	**9**	**29**	**5**	**24**
2003	**14**	**43**	**9**	**29**	**7**	**28**
	We met our 2002 target of 14. We did not meet our 2003 target of 15.	We exceeded our 2002 target of 37. We exceeded our 2003 target of 38.	We met our 2002 target of 9. We did not meet our 2003 target of 10.	We exceeded our 2002 target of 24. We exceeded our 2003 target of 25.	We met our 2002 target of 4. We met our 2003 target of 5.	We exceeded our 2002 target of 19. We exceeded our 2003 target of 20.

Source. Department of Education, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), The Nation's Report Card: Reading, 2002.

Department of Education, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), The Nation's Report Card: Reading Highlights, 2003.

Data Quality. NAEP data are validated using rigorous NCES statistical standards and only significant differences are discussed in the NAEP reports. However, the differences between 2003 actual percents and target percents have not been tested for statistical significance. Small differences may not be statistically significant, especially for smaller subgroups.

NAEP scores are based on samples. Beginning in 2002, the NAEP national sample was obtained by aggregating the samples from each state, rather than by obtaining an independently selected national sample. As a consequence, the size of the national sample increased, and smaller differences between years or between types of students were found to be statistically significant than would have been detected in previous assessments. To provide the ability to compare progress over time, NCES re-computed prior year results based on this new methodology. The FY 2000 scores in the table above have been revised from our prior performance report to reflect these updated data.

Student reading performance is reported in two ways: 1) average scale scores and 2) achievement levels. NCES reports achievement levels as below *Basic*, *Basic*, *Proficient*, and *Advanced*. As provided by law, NCES, upon review of a congressionally mandated evaluation of NAEP, has determined that the achievement levels are to be used on a trial basis and should be interpreted and used with caution. However, both NCES and the National Assessment Governing Board (NAGB) believe that these performance standards are useful for understanding trends in student achievement. NAEP achievement levels have been widely used by national and state officials. Detailed descriptions of the NAEP reading achievement levels can be found on the NAGB Web site at http://www.nagb.org/pubs/readingbook.pdf.

The Department's strategic and annual performance measures report at or above *Proficient* and at or above *Basic* for public school students.

Beginning in 1998, assessment procedures allowed for the use of accommodations by students with disabilities or limited English proficient students who required accommodations to participate in NAEP. The Department of Education uses the data tables on the NCES Web site for Grade 4 achievement of public school students with "accommodations permitted." To reconstruct the data tables in this report, go to http://nces.ed.gov/nationsreportcard/ and select NAEP data. Use the search option to select the following factors: reading, grade 4, national (public), all students, achievement tables, accommodations permitted.

NAEP results for students with disabilities represent results for a sample of students classified by their schools as having a disability. Results from this sample cannot be generalized to the total population of such students.

NCES publishes NAEP race/ethnicity scores in the Report Cards in two ways: based on student responses to two background questions and on school records. Through 2002, the Department reported race/ethnicity results based on student responses. Beginning in 2003, the Department reports race/ethnicity results based on school records.

Related Information. Additional information on NAEP results including sample questions and student answers, is available at http://nces.ed.gov/nationsreportcard/.

Additional Information. The NAEP data for fourth-grade reading achievement are collected biennially and have traditionally been analyzed and released in the spring of the year after collection. With NCLB, NAEP reading and mathematics results are released six months after the assessment. Future NAEP fourth-grade reading assessments are scheduled for 2005, 2007 and 2009.

Objective 2.2: Mathematics Achievement

2.2.1 – 2.2.6 Number of states meeting their targets for eighth-grade mathematics achievement

Fiscal Year	All Students	Low-Income Students	African American Students	Hispanic Students	Students with Disabilities	English Language Learners
2002	///	///	///	///	///	///
2003	Target is 45.	Target is 45.	Target is 45.	Target is 45.	Target is 45.	Target is 45.
	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.

Source. Department of Education, Consolidated State Performance Reports.

Data Quality. States submit Consolidated State Performance Reports to the Office of Elementary and Secondary Education for review. Internal review standards guide review and reporting of data from these reports.

Related Information. Information on the Consolidated State Performance Reports can be obtained at http://www.ed.gov/admins/lead/account/consolidated/index.html#csp.

Information on NAEP can be obtained at http://www.nces.ed.gov/nationsreportcard/.

Additional Information. First-year data for 2003 are expected to be available in January 2004.

Starting with SY 2002–03, each state is required to set the same annual achievement target for all students and for several student subgroups. State targets are based on assessments from SY 2001–02. The first tests that measure against these targets were administered in the spring of 2003 for SY 2002–03. Therefore, FY 2003 is the first year for which state-level data will be available. Some states have issued a State Report Card that includes their annual assessment and achievement data.

Under NCLB, state targets must increase at least every 3 years for the next 12 years, when 100 percent of all students within all subgroups are expected to achieve proficiency. Therefore, although the targets listed above are stable, student achievement will actually need to improve steadily to meet these targets.

States are not required to administer mathematics assessments for eighth graders until SY 2005–06; therefore, the targets and data reflect middle school mathematics achievement until FY 2006.

2.2.7 – 2.2.12 Percentage of eighth-grade public school students scoring at or above the *Proficient* and *Basic* levels on the NAEP mathematics assessment

Fiscal Year	All Students		Low-Income Students		African American Students	
	Proficient	*Basic*	*Proficient*	*Basic*	*Proficient*	*Basic*
2000	25	62	10	41	5	30
2001	///	///	///	///	///	///
2002	///	///	///	///	///	///
2003	**27**	**67**	**11**	**47**	**7**	**39**
	We met our 2003 target of 27.	We exceeded our 2003 target of 64.	We met our 2003 target of 11.	We exceeded our 2003 target of 43.	We met our 2003 target of 6.	We exceeded our 2003 target of 31.

2.2.13 – 2.2.18 Percentage of eighth-grade public school students scoring at or above the *Proficient* and *Basic* levels on the NAEP mathematics assessment

Fiscal Year	Hispanic Students		Students with Disabilities		Limited English Proficient Students	
	Proficient	***Basic***	***Proficient***	***Basic***	***Proficient***	***Basic***
2000	8	40	4	20	2	21
2001	///	///	///	///	///	///
2002	///	///	///	///	///	///
2003	**11**	**47**	**6**	**29**	**5**	**26**
	We met our 2003 target of 11.	We exceeded our 2003 target of 40.	We met our 2003 target of 5.	We exceeded our 2003 target of 29.	We met our 2003 target of 3.	We exceeded our 2003 target of 26.

Source. Department of Education, National Center for Education Statistics (NCES), National Assessment of Educational Progress (NAEP).

Department of Education, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), The Nation's Report Card: Mathematics Highlights, 2003.

Data Quality. NAEP data are validated using rigorous NCES statistical standards and only significant differences are discussed in the NAEP reports. However, the differences between 2003 actual percents and target percents have not been tested for statistical significance. Small differences may not be statistically significant, especially for smaller subgroups.

NAEP scores are based on samples. Beginning in 2002, the NAEP national sample was obtained by aggregating the samples from each state, rather than by obtaining an independently selected national sample. As a consequence, the size of the national sample increased, and smaller differences between years or between types of students were found to be statistically significant than would have been detected in previous assessments. To provide the ability to compare progress over time, NCES re-computed prior year results based on this new methodology. The FY 2000 scores in the table above have been revised from our prior performance report to reflect these updated data.

NAEP results for students with disabilities represent results for a sample of students classified by their schools as having a disability. Results from this sample cannot be generalized to the total population of such students.

NCES publishes NAEP race/ethnicity scores in the Report Cards in two ways: based on student responses to two background questions and on school records. Through 2002, the Department reported race/ethnicity results based on student responses. Beginning in 2003, the Department reports race/ethnicity results based on school records.

Related Information. NAEP data are available at http://nces.ed.gov/nationsreportcard/.

Additional Information. The eighth-grade NAEP mathematics assessment is scheduled to be given every two years. The next assessment is scheduled for 2005.

Objective 2.3: High School Achievement

2.3.1 – 2.3.6 Number of states meeting their targets for high school reading achievement

Fiscal Year	All Students	Low-Income Students	African American Students	Hispanic Students	Students with Disabilities	English Language Learners
2002	///	///	///	///	///	///
2003	Target is 45.	Target is 45.	Target is 45.	Target is 45.	Target is 45.	Target is 45.
	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.

Source. Department of Education, Consolidated State Performance Reports.

Data Quality. States submit Consolidated State Performance Reports to the Office of Elementary and Secondary Education for review. Internal review standards guide review and reporting of data from these reports.

Related Information. Information on the Consolidated State Performance Reports can be obtained at http://www.ed.gov/admins/lead/account/consolidated/index.html#csp.

Information on NAEP can be obtained at http://www.nces.ed.gov/nationsreportcard/.

Additional Information. First-year data for 2003 are expected to be available in January 2004.

Starting with SY 2002–03, each state is required to set the same annual achievement target for all students and for several student subgroups. State targets are based on assessments from SY 2001–02. The first tests that measure against these targets were administered in the spring of 2003 for SY 2002–03. Therefore, FY 2003 is the first year for which state-level data will be available. Some states have issued a State Report Card that includes their annual assessment and achievement data.

Under NCLB, state targets must increase at least every 3 years for the next 12 years, when 100 percent of all students within all subgroups are expected to achieve proficiency. Therefore, although the targets listed above are stable, student achievement will actually need to improve steadily to meet these targets.

2.3.7 – 2.3.12 Number of states meeting their targets for high school mathematics achievement

Fiscal Year	All Students	Low-Income Students	African American Students	Hispanic Students	Students with Disabilities	English Language Learners
2002	///	///	///	///	///	///
2003	Target is 45.	Target is 45.	Target is 45.	Target is 45.	Target is 45.	Target is 45.
	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.	Data for 2003 are pending.

Source. Department of Education, Consolidated State Performance Reports.

Data Quality. States submit Consolidated State Performance Reports to the Office of Elementary and Secondary Education for review. Internal review standards guide review and reporting of data from these reports.

Related Information. Information on the Consolidated State Performance Reports can be obtained at http://www.ed.gov/admins/lead/account/consolidated/index.html#csp.

Information on NAEP can be obtained at http://www.nces.ed.gov/nationsreportcard/.

Additional Information. First-year data for 2003 are expected to be available in January 2004.

Starting with SY 2002–03, each state is required to set the same annual achievement target for all students and for several student subgroups. State targets are based on assessments from SY 2001–02. The first tests that measure against these targets were administered in the spring of 2003 for SY 2002–03. Therefore, FY 2003 is the first year for which state-level data will be available. Some states have issued a State Report Card that includes their annual assessment and achievement data.

Under NCLB, state targets must increase at least every 3 years for the next 12 years, when 100 percent of all students within all subgroups are expected to achieve proficiency. Therefore, although the targets listed above are stable, student achievement will actually need to improve steadily to meet these targets.

2.3.13 – 2.3.16

Percentage of 12th-grade public school students scoring at or above the *Proficient* and *Basic* levels on the NAEP reading assessment[11]

Fiscal Year	All Students		African American Students	
	Proficient	*Basic*	*Proficient*	*Basic*
2002	34	72	15	51
2003	///	///	///	///
	We did not meet our 2002 target of 39.	We did not meet our 2002 target of 76.	We did not meet our 2002 target of 17.	We did not meet our 2002 target of 57.

2.3.17 – 2.3.22

Percentage of 12th-grade public school students scoring at or above the *Proficient* and *Basic* levels on the NAEP reading assessment[11]

Fiscal Year	Hispanic Students		Students With Disabilities		Limited English Proficient Students	
	Proficient	*Basic*	*Proficient*	*Basic*	*Proficient*	*Basic*
2002	21	58	6	31	5	30
2003	///	///	///	///	///	///
	We did not meet our 2002 target of 24.	We did not meet our 2002 target of 61.	We did not meet our 2002 target of 8.	We met our 2002 target of 31.	We did not meet our 2002 target of 9.	We exceeded our 2002 target of 28.

Source. Department of Education, National Center for Education Statistics (NCES), National Assessment of Educational Progress (NAEP), The Nation's Report Card: Reading, 2002.

Data Quality. NAEP data are based on samples and are validated using rigorous NCES statistical standards; only significant differences are discussed in the NAEP reports. However, the differences between 2003 actual percents and target percents have not been tested for statistical significance. Small differences may not be statistically significant, especially for smaller subgroups.

NAEP results for students with disabilities represent results for a sample of students classified by their schools as having a disability. Results from this sample cannot be generalized to the total population of such students.

Related Information. The 2002 12th-grade reading assessment report is available at http://www.nces.ed.gov/nationsreportcard/.

Additional Information. The 12th-grade national NAEP reading assessment is scheduled to be given every four years; the most recent assessment was in 2002. The next assessment will be in 2005, a change in the every-four-years schedule caused by NCLB requirements.

The Department did not meet its 2002 target for 12th-grade NAEP reading scores; in fact, reading scores fell below levels seen in 1992 and 1998. NAEP scores for 4th graders, however, showed improvement, and as these cohorts of students move through the school system, NAEP scores for secondary students should begin to show improvement. The accountability requirements NCLB establishes for all high schools and the improvement strategies it directs low-performing, high-poverty schools to implement should also improve the academic performance of high school students in reading/language arts and mathematics.

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[11] In addition to targets related to the 12th-grade NAEP reading assessment, our *2003 Annual Plan* set targets related to the 12th-grade NAEP mathematics assessment. In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, we noted that the schedule for the NAEP 12th-grade mathematics assessment had changed, which eliminates that measure for 2003.

2.3.23 – 2.3.25 Percentage of 12th-grade students who took at least one Advanced Placement exam

Fiscal Year	All Students	African American Students	Hispanic Students
	Actual	Actual	Actual
1999	11.7	3.4	6.4
2000	12.4	3.9	7.4
2001	13.2	4.1	8.1
2002	14.2	4.5	8.9
2003	**14.8**	**4.9**	**10.0**
	We made progress toward our 2003 target of 15.0.	We made progress toward our 2003 target of 5.0.	We met our 2003 target of 10.0.

2.3.26 – 2.3.29 Percentage of all 12th-grade students who scored 3 or higher on at least one Advanced Placement exam

Fiscal Year	English	American History	Calculus	Science
1999	4.2	0.20	2.8	2.1
2000	4.5	0.27	2.9	2.3
2001	4.4	0.25	3.1	2.3
2002	4.8	0.29	3.4	2.6
2003	**4.8**	**0.26**	**3.5**	**2.7**
	We did not meet our 2003 target of 5.9.	We did not meet our 2003 target of 0.40.	We made progress toward our 2003 target of 4.4.	We made progress toward our 2003 target of 3.6.

Source. College Board, *Advanced Placement Program National Summary Reports*, 1999, 2000, 2001, 2002, and 2003.

Department of Education, National Center for Education Statistics (NCES), *Digest of Education Statistics*, 2002.

Department of Education, National Center for Education Statistics, Private School Universe Survey: 1999–2000. (See Table 10. Number and percentage distribution of private school students, by grade level and National Center for Education Statistics typology.)

Department of Education, National Center for Education Statistics, *Projections of Education Statistics to 2012*. (See Table 3. Enrollment in public elementary and secondary schools by grade.)

Data Quality. The College Board and NCES each validate data according to their own statistical standards. The Department calculates the Advanced Placement (AP) performance measures by using College Board AP reports as they are available on the College Board Web site and NCES enrollment data as they are available on the NCES Web site. Working from the publicly available data, the Department provides transparency in these data and allows them to be easily replicated. The baseline percentages provided in the *FY 2002–2003 Annual Plan* resulted from a series of special analyses done by the College Board for the Department.

AP participation indicators and achievement indicators are calculated by using data from the Advanced Placement Program National Summary Reports, 12th-grade candidates; the *Digest of Education Statistics*, 2001; and Private School Universe Survey: 1999–2000.

The numerator for determining the percentage of all 12th-grade U.S. students who took at least one AP exam is the total of all 12th-grade U.S. students, in both public and private school, who took at least one AP exam. The denominator is the total of all U.S. students, in both public and private school, enrolled in 12th grade for the year of the AP test.

The numerator for determining the percentage of all 12th-grade U.S. African American and Hispanic students who took at least one AP exam is the total of all 12th-grade U.S. African American students and Hispanic students, respectively, in both public and private school, who took at least one AP exam. The denominator is the total of all U.S. African American and

Hispanic students, respectively, in both public and private school, enrolled in 12th grade for the year of the AP test.

The formula for determining the percentage of all 12th-grade U.S. students who scored 3 or higher on the AP exams is the total number of the 12th-grade U.S. candidates who scored 3, 4, or 5 on the particular test divided by the U.S. enrollment for 12th-grade students, in both public and private school, during the school year of the test.

The numerator for both sets of indicators is obtained from the *Advanced Placement Program National Summary Reports, 12th Grade Candidates* (available on the College Board Web site). For the denominator, 12th-grade public school enrollment is obtained from the *Digest of Education Statistics*, 2001, and 12th-grade private school enrollment is obtained from the Private School Universe Survey: 1999–2000 (both available on the NCES Web site).

Public and private school enrollment figures for SY 1999–2000 are actual counts. Public school enrollment figures for the 1998–99, 2000–01, 2001–02, and 2002–03 school years are projected on the basis of actual counts, using data from *Projections of Education Statistics to 2012* (NCES). Private school enrollment figures are imputed by using the annual projected counts for the public schools and the ratio of actual public/private school enrollment (10.1:1) from SY 1999–2000 (we assume here that this ratio is constant). The annual projected count for the private school enrollment is given by

Private enrollment projection = 1/9.9 x Public enrollment projection

= 0.101 x Public enrollment projection.

African American and Hispanic student enrollment figures for SY 1999–2000 are actual counts. We estimated the 1998–99, 2000–01, 2001–02, and 2002–2003 public school enrollments for these subgroups on the basis of the percent distribution in 1999–2000, which was 17.2 percent African American and 15.6 percent Hispanic. We estimated the 1998–99, 2000–01, 2001–02, and 2002–03 private school enrollments on the basis of the percent distribution of African American and Hispanic students to total private school student enrollment in 1999–2000, which was 9.4 percent and 8.3 percent, respectively. In calculating the 1998–99, 2000–01, 2001–02, and 2002–03 figures, we assume the percentages are constant.

Related Information. *The Digest of Education Statistics* is available at http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2003060.

The Private School Universe Survey: 1999–2000 is available at http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2001330. (Publication #2001-330. See table 10 for enrollment statistics.)

The *Projections of Education Statistics to 2012* is available at http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2002030. (Publication #2002-030. See table 3 for enrollment projections.)

Additional Information. The Department experienced mixed results in its efforts to meet targets for AP participation and achievement. We met our participation goals for Hispanic students and made progress in participation goals for all students and African American students. Since 1999, the Department's Advanced Placement Incentives Program has provided funds to states for the payment of AP test fees for low-income students. Appropriations for this program have continued to increase slightly over the years, and the fee payment is expected to continue to help increase participation in AP exams. Progress was made toward our AP achievement targets for Calculus and Science exams, but English and American History exam achievement targets were not met. AP achievement depends on more than AP participation because students are expected to draw from strong academic backgrounds in the subject areas of the AP exam. One year of participation in an AP class may not provide the depth of experience in a subject required by a rigorous AP exam. To improve the achievement of students on AP exams, the Department will continue to focus on Goal 2.3 activities designed to create a more rigorous academic curriculum for high school students.

2.3.30 Percentage of all 18–24-year-old students who have completed high school

Fiscal Year	Actual
1999	85.9
2000	86.5
2001	86.5
2002	Target is 86.1.
2003	Target is 86.5.

Data for 2002 and 2003 are pending.

2.3.31 Percentage of 18–24-year-old African American students who have completed high school

Fiscal Year	Actual
1999	83.5
2000	83.7
2001	85.6
2002	Target is 84.0.
2003	Target is 84.5.

Data for 2002 and 2003 are pending.

2.3.32 Percentage of 18–24-year-old Hispanic students who have completed high school

Fiscal Year	Actual
1999	63.4
2000	64.1
2001	65.7
2002	Target is 64.0.
2003	Target is 66.0.

Data for 2002 and 2003 are pending.

Source. U.S. Department of Commerce, Bureau of the Census, Current Population Survey, October 2000–01.

Department of Education, National Center for Education Statistics (NCES), *Dropout Rates in the United States (2000–2001)*.

Data Quality. Data validated by Bureau of the Census review procedures and by NCES validation procedures.

Related Information. *Dropout Rates in the United States—2000* is available at http://www.nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2002114.

The Common Core of Data survey system of the NCES annually collects information about public school dropouts and completers from states that report dropouts. *Public High School Dropouts and Completers from the Common Core of Data: 2001* is available at http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2002382.

Additional Information. Data for 2002 will be available in April 2004, and data for 2003 will be available in October 2005.

High school completion rates represent the proportion of 18–24-year-olds not currently enrolled in high school or below who have completed a high school diploma or an equivalent credential, including a General Educational Development (GED) credential. Completion rates rose slightly from the early 1970s to the late 1980s but have remained fairly constant during the 1990s.

Objective 3.1: Safe and Drug-Free Schools

3.1.1 Rate of violent crimes experienced at school by students ages 12–18[12]

Fiscal Year	Actual
1999	33/1000
2000	26/1000
2001	**28/1000**
2002	Target is 24/1000.
2003	Target is 24/1000.

Data for 2002 and 2003 are pending.

3.1.2 Rate of serious violent crimes experienced at school by students ages 12–18[13]

Fiscal Year	Actual
1999	7/1000
2000	5/1000
2001	**6/1000**
2002	Target is 4/1000.
2003	Target is 4/1000.

Data for 2002 and 2003 are pending.

Source. U.S. Departments of Education and Justice, *Indicators of School Crime and Safety*.

Data Quality. The primary source of new data that provides information on the experiences of victimization at school is the

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[12] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department modified the statement of this measure to use rates instead of counts.
[13] *Ibid.*

Indicators of School Crime and Safety report, which is released annually and includes a special analysis of the National Crime Victimization Survey (NCVS). The *Indicators of School Crime and Safety* report uses a variety of independent data sources from federal departments and agencies including the Census Bureau, the NCES, the Bureau of Justice Statistics, and the Centers for Disease Control and Prevention. Each agency uses its statistical procedures to validate the data. Survey estimates are derived from a stratified, multistage cluster sample of schools.

Related Information. Data from the school crime supplement to the NCVS are available at http://nces.ed.gov/pubs2002/quarterly/winter01/q3.asp.

The *Indicators of School Crime and Safety* report is available at http://www.nces.ed.gov/pubs2004/2004004.pdf.

Additional Information. Violent crime includes serious violent crime and simple assault. Serious violent crime includes rape, sexual assault, robbery, and aggravated assault. Most NCVS data are reported the year after collection, but in-school victimization data come from a special analysis with a delayed release. The most recent available data are for 2001, which were just recently released. Data for 2002 are expected in November 2004, and data for 2003 in November 2005.

3.1.3–3.1.7

Percentage of youth ages 12–17 who reported using the following substances in the past 30 days

Fiscal Year	Alcohol	Tobacco (Cigarettes)	Marijuana	Cocaine (Discontinued[14])	Heroin (Discontinued[15])
1999	16.5	14.9	7.2	0.5	0.2
2000	16.4	13.4	7.2	0.6	0.1
2001	17.3	13.0	8.0	0.4	0.0
2002	**17.6**	**15.2**	**8.2**	**0.6**	**0.0**
2003	Target is 12.2.	Target is 10.3.	Target is 5.3.[16]	Target is 0.37.	Target is 0.15.
	We did not meet our 2002 target of 13.2. Data for 2003 are pending.	We did not meet our 2002 target of 11.2. Data for 2003 are pending.	We did not meet our 2002 target of 5.8. Data for 2003 are pending.	We did not meet our 2002 target of 0.40. Data for 2003 are pending.	We exceeded our 2002 target of 0.16. Data for 2003 are pending.

Source. The Substance Abuse and Mental Health Services Administration (SAMHSA), The National Survey on Drug Use and Health (formerly called the National Household Survey on Drug Abuse).

Data Quality. National Survey on Drug Use and Health data are validated by SAMHSA. Data are updated annually. The project interviews approximately 70,000 people age 12 years or older, in every state, over a 12-month period. Because of the size of the sample, it is possible to make relatively precise estimates of many variables of major interest.

Related Information. Data from the National Survey on Drug Use and Health are available on the Web at http://www.samhsa.gov/oas/nhsda.htm.

Additional Information. The Department's Office of Safe and Drug-Free Schools is targeting its efforts toward improving these outcomes. FY 2003 data are expected in September 2004. The variable for "Marijuana" is now listed in the survey as "Marijuana and Hashish."

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[14] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department discontinued this measure effective FY 2004. We provide the required information here, but do not discuss this measure in the Performance Details Section.

[15] *Ibid.*

[16] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department modified this target based on trend data. However, we provide the required comparison here based on the target set in our *2003 Annual Plan*.

3.1.8 Percentage of high school students who report any alcohol use on school property in the previous 30 days

Fiscal Year	Actual
1999	5
2000	///
2001	**5**
2002	///
2003	Target is 5.
Data for 2003 are pending.	

3.1.9 Percentage of high school students who report any cigarette use on school property in the previous 30 days

Fiscal Year	Actual
1999	14
2000	///
2001	**9.9**
2002	///
2003	Target is 14.
Data for 2003 are pending.	

3.1.10 Percentage of high school students who report any marijuana use on school property in the previous 30 days

Fiscal Year	Actual
1999	7.2
2000	///
2001	**5.4**
2002	///
2003	Target is 7.
Data for 2003 are pending.	

3.1.11 Percentage of high school students who report being offered, sold, or given an illegal drug on school property in the previous 12 months

Fiscal Year	Actual
2001	**30**
2002	///
2003	Target is 29.
Data for 2003 are pending.	

Source. Centers for Disease Control (CDC), Youth Risk Behavior Surveillance System (YRBSS).

Data Quality. YRBSS surveys students about issues associated with youth morbidity and mortality, including violence and drug and alcohol use. The system includes national, state, and local school-based surveys of students. The national survey, conducted for the CDC, provides data from a nationally representative sample of high school students in public and private schools in the United States.

Related Information. Data from the YRBSS are available at http://www.cdc.gov/nccdphp/dash/yrbs.

Additional Information. Actual data values for 1999 were adjusted from the *Strategic Plan* 2002–2007 to match the year reported to the year in which data were collected—baseline data in the *Strategic Plan* were for 1999, not 2001. Data for 2001 shown above are new data, but we did not have targets for 2001. Data are collected biennially, usually during the spring semester, and are analyzed and reported on the year following collection. Data for FY 2003 are expected in September 2004.

Objective 3.2: Character and Citizenship

3.2.1 Percentage of students in grade 12 who participated in community service or volunteer work[17]

Fiscal Year	Actual
1999	75.3
2000	75.2
2001	77.4
2002	---
2003	Target is 81.
Data are unavailable and not expected.	

Source. University of Michigan, Survey Research Center, Monitoring the Future.

Data Quality. Monitoring the Future is a repeated series of surveys in which segments of the population (8th, 10th, and 12th graders) are presented with the same set of questions over a period of years to see how answers change over time. Data were collected from students during the spring of each year; however, data for this measure will not be collected in 2003 or thereafter. Further, there is no other source that provides these data. Therefore, the Department plans to discontinue this measure.

Related Information. Information about Monitoring the Future is available at: http://www.monitoringthefuture.org/.

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[17] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department modified grade-level coverage of this measure because of a change in data source availability and modified the target accordingly.

3.2.2 Percentage of 14- to 18-year-olds who believe cheating occurs by half or most students

Fiscal Year	Actual
1999	43
2000	41
2001	///
2002	—
2003	**50**
We did not meet our 2003 target of 39.	

Source. The Horatio Alger Association, State of Our Nation's Youth Survey.

Data Quality. On the basis of a telephone survey of about 1,003 students across the country, about 505 geographic points were selected randomly and proportionate to the population of each region and, within each region, by size of place. Individuals were selected in accordance with a probability sample design that gives all telephone numbers an equal chance to be included. The data's statistical margin of sampling error is +/–3.1 percentage points. Minimal weights were applied to sex and year in school.

Related Information. Information on this survey may be obtained from the Horatio Alger Association at 703-684-9444 or is available at http://www.horatioalger.com/.

Additional Information. The survey question on cheating was not asked in 2001 or 2002. Data may not be comparable to previous years because the question and response options were changed for the 2003 survey. Previous measures aggregated data about students who *believe* that cheating occurs in either no or few students or in half or most students. The 2003 measure asked respondents from what they *know*, what proportion of students cheat using the following categories: just a few, about 25 percent, about half, about 75 percent, near all, or not sure. The figure reported is the aggregate of the responses for about half, about 75 percent, and nearly all categories. Targets for 2003 are no longer valid due to the question change on the 2003 survey. Actual data from 2003 will be used to set new targets for future years.

3.2.3 (New[18]) The percentage of students in grade 12 who would dislike it if a student intentionally did things to make his/her teachers angry

Fiscal Year	Actual
1999	33.6
2000	32.1
2001	30.6
2002	Pending; no target[19]
2003	Target is 34.
Data for 2003 are pending.	

3.2.4 (New[20]) The percentage of students who think that most students in their classes would dislike it if a student cheated on a test

Fiscal Year	Actual
1999	14.8
2000	12.2
2001	13.5
2002	Pending; no target[21]
2003	Target is 17.
Data for 2003 are pending.	

Source. University of Michigan, Survey Research Center, Monitoring the Future.

Data Quality. This project is a repeated series of surveys in which segments of the population (8th, 10th, and 12th graders) are presented with the same set of questions over a period of years to see how answers change over time. Data are collected from students during the spring of each year. Each year's data collection takes place in approximately 420 public and private high schools and middle schools selected to provide an accurate representative cross section of students throughout the contiguous United States.

Related Information. Information about Monitoring the Future is available at http://www.monitoringthefuture.org/.

Additional Information. Monitoring the Future, begun in 1975, has many purposes, including studying changes in the beliefs, attitudes, and behavior of young people in the United States. Data for FY 2003 will be available in December 2003.

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[18] The Department added this measure in our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*.

[19] This measure was first established for FY 2003.

[20] The Department added this measure in our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*.

[21] This measure was first established for FY 2003.

Objective 4.1: Education as an Evidence-Based Field[22]

4.1.1 Percentage of new IES and OSEP research and evaluation projects funded by the Department that are deemed to be of high quality by an independent review panel of qualified scientists

Fiscal Year	Actual
2001	40
2002	53
2003	**66**
We made progress toward our 2003 target of 90.	

4.1.2 Percentage of new IES and OSEP research and evaluation publications that are deemed to be of high quality by an independent review panel of qualified scientists

Fiscal Year	Actual
2001	0
2002	100
2003	**Not applicable**
There were no 2003 publications to review.	

Source. Department of Education, Institute of Education Sciences (IES), Independent external review panels.

Data Quality. Review panels composed of senior scientists with expertise in various content areas evaluated a random sample of newly funded proposals for IES and OSEP (Office of Special Education Programs) projects. Reviews are standardized using criteria developed by IES.

Additional Information. Independent review panels convened by the Department to evaluate the quality of new projects and publications are independent of peer review panels that oversee the selection of projects. These panels are convened after the close of the fiscal year to review projects and publications of the prior year.

4.1.3 Of new IES and OSEP research and evaluation projects that address causal questions, the percentage that employ randomized experimental designs

Fiscal Year	Actual
2001	46
2002	78
2003	**94**
We exceeded our 2003 target of 71.	

4.1.4 Of new IES and OSEP research and evaluation publications that address causal questions, the percentage that describe studies that employ randomized experimental designs

Fiscal Year	Actual
2001	0
2002	100
2003	**Not applicable**
There were no 2003 publications to review.	

Source. Department of Education, Institute of Education Sciences.

Data Quality. Research staff evaluate all newly funded research proposals. Quality review standards were developed by IES. Each product and proposal is reviewed to determine if the project includes questions of effectiveness (i.e., causal questions) and, if so, whether the project employs randomized experimental designs. Inter-rater reliability checks are completed to ensure the reliability of the data.

Additional Information. Presence of a causal question is defined as a study in which one variable is hypothesized to affect a second variable.

A randomized experimental design is defined as instances in which there is an experimental treatment group and one or more comparison groups with random assignment of participants to treatment or comparison conditions. If a proposal or publication included a design in which two or more groups of participants were compared but did not explicitly indicate that random assignment procedures would be used, the proposal was recorded as not using a randomized experimental design.

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[22] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified the measure statements of this objective for clarity.

Objective 4.2: Relevance of Research

4.2.1 Percentage of new research projects funded by the Department that are deemed to be of high relevance to educational practice as determined by an independent review panel of qualified practitioners

Fiscal Year	Actual
2001	24
2002	53[23]
2003	Target is 54.
Data for 2003 are pending.	

Source. Department of Education, Institute of Education Sciences, Panel Reviews.

Data Quality. An external panel of qualified practitioners evaluated the relevance of a random sample of newly funded research proposals submitted in 2003. The inclusion of only experienced practitioners and administrators in education and special education on the panel promotes the quality of the data.

Additional Information. Data for 2003 are expected to be available in November 2003. The independent review panel referenced here is different from the peer review panels that oversee the selection of projects. The panel was convened at the close of the fiscal year to review projects and publications as a way to judge the effectiveness of the Department's quality control mechanisms.

4.2.2 Number of hits on the What Works Clearinghouse Web site[24]

Fiscal Year	Actual
2002	---
2003	**1,522,922**
We exceeded our 2003 target of 1,000,000.[25]	

Source. Department of Education, Institute of Education Sciences, What Works Clearinghouse Web site.

Data Quality. Automated Web software enables an accurate count of Web hits, exact items receiving the greatest number of hits, and time intervals of Web visits.

Related information. Additional information on the What Works Clearinghouse is available at http://w-w-c.org/ or call 301-519-5444.

Additional Information. The What Works Clearinghouse Web site was created in October 2002.

4.2.3 Percentage of K–16 policy makers and administrators who report routinely considering evidence of effectiveness before adopting educational products and approaches

Fiscal Year	Actual
2002	42
2003	---
Data for 2003 are unavailable and not expected.	

4.2.4 (Discontinued[26]) Percentage of K–16 policy makers and administrators who report that they use research products of the Department in policy-making decisions

Fiscal Year	Actual
2002	41
2003	---
Data for 2003 are unavailable and not expected.	

Source. Department of Education, Institute of Education Sciences, The Decision Maker Survey, 2002.

Data Quality. The sample for the Decision Maker Survey included individuals across levels in the decision- and policy-making process—district and state level decision-makers for K–12 and higher education, state and national policymakers, and leaders of national associations of education. The decision-makers were distributed across high-, low-, and average-achieving districts and states, across urban and rural areas, and across all regions of the country.

Small sample size, however, limited the reliability of the data. Additionally, it became clear that the individuals surveyed could indicate whether they used research products in their policy-making decisions but did not know whether the Department was the source of those research products.

Additional Information. Although the Department set a target for 2003, it was later determined that the next Decision

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[23] This value is corrected from the *FY 2002 Performance and Accountability Report*. The status is unchanged.

[24] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department moved this measure from Goal 4 to Goal 1.

[25] In our *2003 Annual Plan*, the 2003 target was stated as twice the baseline as set in 2002. In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified this target to a numerical value because a baseline was not set in 2002.

[26] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department discontinued this measure effective FY 2004.

Maker Survey will be conducted in 2005 and that the identification of using Department materials will not be included. Thus measure 4.2.3 will be next reported in FY 2005, and measure 4.2.4 has been discontinued effective FY 2004.

Objective 5.1: College Access and Completion

5.1.1–5.1.4 Percentage of 16–24-year-old high school graduates enrolled in college the October following graduation

Fiscal Year	Overall	White	Black	White-Black Gap
1999	62.9	66.3	58.9	7.4
2000	63.3	65.7	54.9	10.8
2001	61.7	64.2	54.6	9.6
2002	Target is 63.8.	Target is 66.9.	Target is 59.6.	Target is 7.3.
2003	Target is 64.1.	Target is 67.0.	Target is 60.3.	Target is 6.7.
	Data for 2002 and 2003 are pending.			

5.1.5–5.1.9 Percentage of 16–24-year-old high school graduates enrolled in college the October following graduation

Fiscal Year	Hispanic	White-Hispanic Gap	Low Income	High Income	Income Gap
1999	42.2	24.1	49.4	76.0	26.6
2000	52.9	12.8	49.7	77.1	27.4
2001	51.7	12.5	43.8	79.8	36.0
2002	Target is 50.0.	Target is 16.9.	Target is 51.5.	Target is 76.9.	Target is 25.4.
2003	Target is 51.5.	Target is 15.5.	Target is 53.5.	Target is 77.0.	Target is 23.5.
	Data for 2002 and 2003 are pending.				

Source. Census Bureau, Current Population Survey, October 2001, released in December 2002.

Data Quality. Information includes those ages 16–24 completing high school in a given year. Actual values are one-year averages calculated from the Current Population Survey. Data are subject to both Census and NCES validation procedures.

Related Information. The Department of Education's *Condition of Education* is available at http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2003067.

Additional Information. FY 2002 data will be reported in late December 2003. FY 2003 data will be reported in late December 2004.

5.1.10–5.1.15 National percentage of full-time, bachelor degree-seeking students who graduate from four-year institutions within six years

Fiscal Year	Overall	White	Black	White-Black Gap	Hispanic	White-Hispanic Gap
1999	53.0	56.0	35.4	20.6	40.9	15.1
2000	52.4	55.4	35.7	19.7	41.5	13.9
2001	Pending; no target[28]	Pending; no target	Pending; no target	Pending; no target	Pending; no target	Pending; no target
2002	Target is 52.7.	Target is 56.0.	Target is 37.0.	Target is 19.0.	Target is 41.0.	Target is 15.0.
2003	Target is 53.1.	Target is 56.1.	Target is 38.9.	Target is 17.2.	Target is 42.5.	Target is 13.6.
	Data for 2002 and 2003 are pending.					

5.1.16–5.1.21 Percentage of full-time, degree- or certificate-seeking students at two-year institutions who graduate, earn a certificate, or transfer from a two-year school within three years[27]

Fiscal Year	Overall	White	Black	White-Black Gap	Hispanic	White-Hispanic Gap
1999	34.4	35.3	29.5	5.8	32.5	2.8
2000	32.7	34.0	26.5	7.5	30.1	3.9
2001	Pending; no target[28]	Pending; no target	Pending; no target	Pending; no target	Pending; no target	Pending; no target
2002	Target is 32.5.	Target is 34.0.	Target is 26.3.	Target is 7.7.	Target is 30.5.	Target is 3.5.
2003	Target is 32.7.	Target is 34.1.	Target is 27.0.	Target is 7.1.	Target is 30.8.	Target is 3.3.
	Data for 2002 and 2003 are pending.					

Source. Department of Education, NCES, Graduation Rate Survey (GRS), part of the Integrated Postsecondary Education Data System (IPEDS).

Data Quality. Data are subject to NCES validation procedures. Years represent rates of graduation for graduating cohort. For example, the percentage of the 1994 cohort that graduated from a four-year institution by 2000 is reported in 2000; the percent of the 1997 cohort that graduated, earned a certificate, or transferred from a two-year institution by 2000 is reported in 2000.

Although the survey can provide information on whether the students transferred from a two-year school, the data do not distinguish the students who transferred to a four-year school from those who transferred to another two-year school. The reported numbers reflect any student who successfully transferred out of the school within three years.

Related Information. NCES's postsecondary survey site (including IPEDS) is available at http://nces.ed.gov/surveys/SurveyGroups.asp?Group=2.

Additional Information. Both FY 2001 data and FY 2002 data will be reported in February 2004. FY 2003 data will be reported in November 2004.

Note: FY 2002 is the initial year for which the GRS is mandated. As soon as the 2002 data analysis and release are completed, work will proceed on the 2001 data.

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[27] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department slightly modified this measure to correctly reflect the available data; students who transfer from a two-year institution may transfer to a four-year or another two-year institution.

[28] Because our *Strategic Plan* was developed and published in FY 2002, we do not have targets for 2001.

5.1.22–5.1.25 (Discontinued[29])Percentage of parents of students in middle school who talked with a counselor about the availability of financial aid for postsecondary study[30]

Fiscal Year	Overall	Low Income	High Income	Income Gap
1999	27	23	30	7
2000	///	///	///	///
2001	///	///	///	///
2002	///	///	///	///
2003	---	---	---	---
	Data are unavailable and not expected.			

5.1.26–5.1.29 (Discontinued[31]) Percentage of parents of students in high school who talked with a counselor about the availability of financial aid for postsecondary study[32]

Fiscal Year	Overall	Low Income	High Income	Income Gap
1999	48	39	52	13
2000	///	///	///	///
2001	///	///	///	///
2002	///	///	///	///
2003	---	---	---	---
	Data are unavailable and not expected.			

5.1.30–5.1.33 (Discontinued[33]) Percentage of parents of students in middle school who talked with a counselor about the academic requirements for postsecondary study[34]

Fiscal Year	Overall	Low Income	High Income	Income Gap
1999	10	8	12	4
2000	///	///	///	///
2001	///	///	///	///
2002	///	///	///	///
2003	---	---	---	---
	Data are unavailable and not expected.			

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[29] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department discontinued these measures effective FY 2004. We provide the required information here, but do not discuss the measure in the Performance Details Section.

[30] Our *Strategic Plan* set 2003 targets for these measures. Our *2003 Annual Plan* inadvertently identified the 2003 targets as 2002 targets.

[31] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department discontinued these measures effective FY 2004. We provide the required information here, but do not discuss the measure in the Performance Details Section.

[32] Our *Strategic Plan* set 2003-targets for these measures. Our *2003 Annual Plan* inadvertently identified the 2003 targets as 2002 targets.

[33] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department discontinued these measures effective FY 2004. We provide the required information here, but do not discuss the measure in the Performance Details Section.

[34] Our *Strategic Plan* set 2003 targets for these measures. Our *2003 Annual Plan* inadvertently identified the 2003 targets as 2002 targets.

5.1.34–5.1.37 (Discontinued[35]) Percentage of parents of students in high school who talked with a counselor about the academic requirements for postsecondary study[36]

Fiscal Year	Overall	Low Income	High Income	Income Gap
1999	38	28	48	20
2000	///	///	///	///
2001	///	///	///	///
2002	///	///	///	///
2003	---	---	---	---
	Data are unavailable and not expected.			

Source. Department of Education, National Center for Education Statistics (NCES), National Household Education Survey (NHES), conducted in 1999 and reported in May 2001.

Data Quality. This survey no longer asks questions that provide data for the above measures, and there is no other source for the data. These measures have not been reported since 1999.

Related Information. Further information about the NHES survey is available at http://nces.ed.gov/nhes/.

Additional Information. The survey has introduced new, similar questions in its family awareness section. Accordingly, new measures with a similar purpose have been developed and included in the Department's *FY 2004 Annual Plan*, and these measures have been discontinued effective FY 2004.

Objective 5.2: Accountability of Postsecondary Institutions

5.2.1 Percentage of states and territories submitting Title II reports with all data reported using federally required definitions

Fiscal Year	Actual
2001	63
2002	80
2003	Target is 100.
Data for 2003 are pending.	

Source. Title II Data System, National Center for Education Statistics (NCES).

Data Quality. Data are reported by the institutions and are subject to NCES verification and validation. In anticipation of the reauthorization of the Higher Education Act, the Office of Postsecondary Education (OPE) prepared a report that identified weaknesses in Title II reporting and proposed possible changes to address them. A review of state reports suggests that states continue to have problems using the federal definition of waivers in reporting on teacher characteristics. Therefore, the Department may have difficulty in achieving our FY 2003 target of 100 percent.

Additional Information. Data for FY 2003 will be available in April 2004.

5.2.2 (Discontinued[37]) Percentage of states with comprehensive reporting systems for colleges and universities that include student retention data and graduation rates for four-year degree seekers after four, five, and six years; graduation rates for two-year degree and certificate seekers after two and three years; and transfer rates for students at two-year and four-year institutions, disaggregated by student demographic factors such as race, gender, ethnicity, disability, and federal aid versus nonfederal aid recipient

Fiscal Year	Actual
2001	0
2002	0
2003	**0**
We did not meet our 2003 target of 60.	

Source. Department of Education, National Center for Education Statistics (NCES), Integrated Postsecondary Education Data System (IPEDS).

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[35] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department discontinued these measures effective FY 2004. We provide the required information here, but do not discuss the measure in the Performance Details Section.

[36] Our *Strategic Plan* set 2003 targets for these measures. Our *2003 Annual Plan* inadvertently identified the 2003 targets as 2002 targets.

[37] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department discontinued this measure effective FY 2004.

Data Quality. IPEDS data are reported by the institutions and are validated by NCES.

Related Information. IPEDS is available at http://nces.ed.gov/ipeds.

Additional Information. Successfully meeting this objective will require the cooperation of the postsecondary community, the states, and the Congress. OPE is participating in a series of panel meetings to discuss the institutional reporting system. We are seeking the advice and input of the panel about the additional reporting requirements needed to achieve the objective of this performance measure. Also, OPE and the National Postsecondary Education Cooperative (NPEC) are looking into definitional issues related to persistence, degree completion, and job placement to further refine the appropriate approaches for supporting state-level efforts.

However, to date, states have not modified their data collection and reporting systems to be able to report student persistence and completion with the necessary levels of disaggregation and with the required multiple time frames. It is unlikely that states will make the necessary changes to comply with the requirements of this measure. Therefore, the Department discontinued this measure effective FY 2004.

Objective 5.3: Funding Postsecondary Education

5.3.1 Average national increases in college tuition, adjusted for inflation

Fiscal Year	Actual
1999	5.4%
2000	4.5%
2001	3.1%
2002	6.4%
2003	Target is 3.0%.
Data for 2003 are pending.	

Source. Department of Education, National Center for Education Statistics (NCES), Integrated Postsecondary Education Data System, Fall Enrollment Survey and Institutional Characteristics Survey.

Data Quality. Survey data are for the entire academic year and are average charges paid by students. Tuition and fees were weighted by the number of full-time-equivalent undergraduates but were not adjusted to reflect student residency. The data have not been adjusted for changes in the purchasing power of the dollar over time.

Related Information. College Board statistics on increases in tuition costs are available at http://www.collegeboard.com/press/cost02/html/cost02a.html.

Additional Information. The College Board recently reported that from the 2001–02 school year to the 2002–03 school year, tuition and fees increased by 5.8 percent at four-year private institutions (average $18,273) and by 9.6 percent at four-year public institutions (average $4,081), the largest increase in a decade (see additional information on the Web site for the College Board report). Despite the rising tuition and fees, the College Board report stressed that over the last decade, tuition growth at four-year colleges and universities was less than 40 percent, after adjusting for changes in consumer prices—much lower than the increase of about 60 percent during the preceding decade.

Department data on tuition and fees for 2003, which are used to determine our performance on this measure, are expected in December 2003.

5.3.2 Unmet need as percentage of cost of attendance for low-income dependent students

Fiscal Year	Actual
2000	43.1
2001	///
2002	---
2003	---
Data are unavailable and not expected.	

5.3.3 Unmet need as percentage of cost of attendance for low-income independent students with children

Fiscal Year	Actual
2000	60.6
2001	///
2002	---
2003	---
Data are unavailable and not expected.	

5.3.4 Unmet need as percentage of cost of attendance for low-income independent students without children[38]

Fiscal Year	Actual
2000	46.2
2001	///
2002	---
2003	---
Data are unavailable and not expected.	

Source. The National Postsecondary Student Aid Survey (NPSAS) released as *Student Financing of Undergraduate Education: 1999–2000*, June 2002.

Data Quality: NPSAS data are available in intervals of four years. Data are subject to NCES verification and validation.

Related Information. NPSAS information is available at http://nces.ed.gov/surveys/npsas/.

Additional Information. For the following reasons, data on these measures will not be reported for 2002 and 2003:

- The NPSAS, the source for this measure, is available only every four years.
- The measurement is derived from students who receive aid; therefore, it is unclear what impact the "unmet need" is having on access.
- Unmet need can most effectively be reduced by appropriating more funding for student aid and, therefore, mirrors levels of student aid appropriations.

The Department plans to discontinue these measures effective FY 2005.

5.3.5 Borrower indebtedness (expressed as average borrower payments) for federal student loans as a percentage of borrower income[39]

Fiscal Year	Actual
1999	6.5
2000	6.4
2001	///[40]
2002	---
2003	---
Data are unavailable and not expected.	

Source. Department of Education, National Student Loan Data System (NSLDS) records merged with income data from the Internal Revenue Service (IRS) (analysis conducted by the Department's Policy and Program Studies Service).

Data Quality. IRS data are validated by the Department of the Treasury and NSLDS data are validated by Office of Federal Student Aid (FSA) and the reporting state agencies.

Related Information. Information on student aid as compiled by the College Board is available at http://www.collegeboard.com/press/cost02/html/cost02b.html.

Additional Information. Data for 2001 will be available December 2003.

In prior years, the banking community used this measure as a barometer for what constituted an acceptable level of debt and the Department used this measure as well. In recent years, however, the banking community has embraced "credit scoring." We no longer have a meaningful benchmark to assess a reasonable debt ratio. Thus, we plan to discontinue this measure effective FY 2005.

Objective 5.4: HBCUs, HSIs, and TCUs

5.4.1 Percentage of HBCUs, HSIs, and TCUs with a positive fiscal balance

Fiscal Year	Actual
2000	67
2001	71
2002	**69**
2003	Target is 79.
We did not meet our 2002 target of 74. Data for 2003 are pending.	

Source. Department of Education, National Center for Education Statistics (NCES), Integrated Postsecondary Education Data System (IPEDS).

Data Quality. Data are self-reported from institutions and estimate the total universe in this measure. Nearly all Historically Black Colleges and Universities (HBCUs), Hispanic-Serving Institutions (HSIs), and Tribal Colleges and

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[38] Baseline data for 2000 provided in our *Strategic Plan* were erroneously reported as 64.2 percent. The correct value is 46.2 percent. In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, we modified the targets to reflect the original intent to reduce the percentage by 1 percent per year.

[39] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified this measure statement for clarity.

[40] Because our *Strategic Plan* was developed and published in FY 2002, we did not have a target for 2001.

Universities (TCUs) participate in the IPEDS Financial Report and are, therefore, represented by the data. An institution's status as an HSI is determined by Hispanic and low-income student enrollment, which can fluctuate from year to year and cannot be exactly determined from IPEDS enrollment data. However, a reasonable approximation can be based on the IPEDS enrollment data.

Related Information. Information on the White House Initiative on Historically Black Colleges and Universities is available at http://www.ed.gov/about/inits/list/whhbcu/edlite-index.html.

Information on the White House Initiative on Educational Excellence for Hispanic Americans is available at http://www.yesican.gov/.

The NCES report *Hispanic Serving Institutions Statistical Trends 1990–1999* is available at http://nces.ed.gov/pubs2002/2002051.pdf.

Information on the White House Initiative on Tribal Colleges and Universities is available at http://www.ed.gov/about/inits/list/whtc/edlite-tclist.html.

IPEDS description and data are available at http://nces.ed.gov/ipeds/.

Additional Information. Data from IPEDS is collected annually by NCES. Data for FY 2003 will be available in September 2004.

Our status on this measure reflects the economy. The President's economic recovery plan is expected to help more of these institutions achieve a positive fiscal balance. The financial situation of a school is largely related to the financial situation of its graduates, who would make donations to the school.

5.4.2 Percentage of HBCUs, HSIs, and TCUs with evidence of increased technological capacity (such as wireless systems, high speed Internet connections, distance learning programs, or other evidence of technological innovation)

Fiscal Year	Actual
2002	---
2003	---
Data are unavailable and not expected.	

Data Quality. The Department intended to obtain data from OPE's Annual Performance Report. However we determined that the information obtained from this report was not adequately aligned with this measure.

Related Information. Information on the White House Initiative on Historically Black Colleges and Universities is available at http://www.ed.gov/about/inits/list/whhbcu/edlite-index.html.

Information on the White House Initiative on Educational Excellence for Hispanic Americans is available at http://www.yesican.gov/.

The NCES report *Hispanic Serving Institutions Statistical Trends 1990–1999* is available at http://nces.ed.gov/pubs2002/2002051.pdf.

Information on the White House Initiative on Tribal Colleges and Universities is available at http://www.ed.gov/about/inits/list/whtc/edlite-tclist.html.

Additional Information. Because there is no viable data source, the Department plans to discontinue this measure effective FY 2005.

Objective 5.5: Literacy and Employment Of American Adults

5.5.1 Percentage of all persons served by state vocational rehabilitation (VR) agencies who obtain employment

Fiscal Year	Actual
1999	62.5
2000	62.5
2001	60.7
2002	60.2
2003	Target is 63.5.
We did not meet our 2002 target of 63.0. Data for 2003 are pending.	

Source. Department of Education, RSA-113 Quarterly Cumulative Caseload Report.

Data Quality. Data for this measure are derived from the RSA–113, the Quarterly Cumulative Caseload Report. This report is submitted by the 80 state vocational rehabilitation agencies to the Rehabilitation Services Administration (RSA) on a quarterly basis, with the fourth-quarter report containing cumulative data for the entire year. Data are validated first by RSA regional office staff for accuracy and reasonableness and then by Department staff at headquarters who perform additional edits. RSA's management information system, which was recently implemented, will automate much of this editing process. This information is cross-checked against information that state Vocational Rehabilitation (VR) agencies provide to RSA from the RSA–911, a report on individuals closed out of the VR program in a given fiscal year. The agreement between the summary report (the RSA–113) and the individual case report (RSA–911) is determined and resolved before databases are considered final. If RSA identifies systematic problems through the edit process, state agencies are required to correct any data submission problems. The 2001 actual data value has been corrected to reflect corrections submitted to RSA by state agencies.

Related Information. VR publications and reports are available at http://www.ed.gov/about/offices/list/osers/rsa/products.html.

Additional Information. This measure identifies the rate at which individuals with disabilities benefit from VR services in terms of employment. In recent years, because of a statutory mandate, the program has been refocused to serve increasingly larger numbers of individuals with significant disabilities who require more extensive services over an extended period of time. Performance on this measure increased gradually until FY 2001. However, in FY 2001, the percentage began to decrease. This decrease is believed to be due to the weak economy and the fact that individuals placed in extended employment are no longer considered to have achieved an employment outcome under this program. Because of these factors, performance on this measure is not expected to increase significantly. Data for 2003 are expected in April 2004.

Objective 6.1: Financial Integrity and Management and Internal Controls

6.1.1 Achievement of an unqualified audit opinion

Fiscal Year	Actual
1999	Qualified
2000	Qualified
2001	Qualified
2002	Unqualified
2003	**Unqualified**
We met our 2003 target of an unqualified audit opinion.	

Source. Independent Auditors' FY 2003 Financial Statement and Audit Report.

Data Quality. Independent auditors follow professional standards and conduct the audit under the oversight of the Office of Inspector General. There are no data limitations.

Related Information. The FY 2002 *Performance and Accountability Report* is available at http://www.ed.gov/about/reports/annual/2002report/index.html.

The FY 2003 *Performance and Accountability Report* is available at http://www.ed.gov/about/reports/annual/2003report/index.html.

Additional Information. The Department received our second consecutive clean opinion for FY 2003. The clean opinion was a crucial milestone in the Department's efforts toward creating a permanent culture of accountability.

6.1.2 Financial management grade received on "report card" by the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations

Fiscal Year	Actual
1999	D-
2000	D-
2001	D-
2002	---
2003	---
Data are unavailable and not expected.	

Source. Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations of the House Committee on Government Reform.

Data Quality. The Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations issued a "Report Card" grade based on published criteria. There are no data limitations.

Related Information. Information about the House Committee on Government Reform is available at http://www.house.gov/reform/gefmir/.

Additional Information. The Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations is no longer issuing a report card on financial management. The last report card issued by the subcommittee was for FY 2001. The Department plans to discontinue this measure effective FY 2005. However, the Department continues to focus on and is making progress in financial management.

6.1.3 Number of audit recommendations from prior year financial statement audits remaining open

Fiscal Year	Actual
1999	48
2000	18
2001	19
2002	8
2003	**3**

We exceeded our 2003 target of 7.

Source. Department of Education, Audit Accountability and Resolution Tracking System.

Data Quality. Data are drawn from the electronic system identified above. Managers with responsibility for the affected areas provide updates to the status of all open audit recommendations in this system. When the corrective actions have been implemented and the manager determines that the recommendation has been completed, the Office of the Chief Financial Officer makes a final determination that the recommendation can be closed.

Additional Information. The Department has made a concerted effort over the last several years to implement audit recommendations from prior year financial statement audits to improve financial management and obtain a clean audit opinion. The Department closed 181 of the 184 prior year audit recommendations dating back to the FY 1995 audit; 15 of the recommendations were closed during FY 2003.

Examples of significant achievements resulting from closure of the audit recommendations include the following:

- Applied standard methodologies to perform timely (within 30 days of month-end) reconciliations of significant program accounts.
- Developed procedures regarding the resolution of unmatched schedules within Fund Balance with Treasury.
- Reconciled the Budget Clearing and Suspense Accounts on a timely basis.
- Enhanced data mining activities (an analysis of existing data to identify patterns) and developed other approaches to search for duplicate and potential improper payments.
- Developed a plan for meeting accelerated time schedule for producing interim and year-end financial statements.
- Improved financial reporting related to credit reform.

6.1.4 Number/percentage of performance-based contract actions

Fiscal Year	Actual
1999	72
2000	110
2001	414
2002	44%
2003	45%

We exceeded our 2003 target of 25%.[41]

6.1.5 Percentage of eligible service contract dollars in performance-based contracts

Fiscal Year	Actual
1999	20
2000	43
2001	52
2002	59
2003	**60**

We exceeded our 2003 target of 50.

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[41] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department raised this target to 45 percent, based on trend data. However, we provide the required comparison here, based on the target set in our *2003 Annual Plan*.

Source. Department of Education, Central Automated Processing System (EDCAPS) and Federal Procurement Data Source

Data Quality. Data are drawn from Department systems. The Department began computing the percent of actions in 2002. Prior data are available only for the number of actions. Contract dollars include only new contracts and modifications to existing Performance-Based Service Contracting contracts awarded in a year identified.

Additional Information. Since FY 2001, the Department has exceeded the governmentwide objective to apply performance-based contracting to at least 50 percent of its annual acquisition dollars. In addition, the Department has set and exceeded its targets for the percentage of contract actions that are performance based. The Department is also improving the performance measures being used in these contracts to focus on more challenging results.

6.1.6 Percentage of erroneous payments[42]

Fiscal Year	Actual
2002	---
2003	**Set benchmark of 2.5**
We set a benchmark in 2003.	

Source. Department of Education, Office of the Chief Financial Officer.

Data Quality. Based on OMB's guidance for the implementation of Public Law (PL) 107–300, the Improper Payments Information Act of 2002, significant erroneous payments are defined as annual erroneous payments in the program exceeding both 2.5 percent of program payments and $10 million. Because the programs for which the Department has historical data show dollar amounts that are generally above the $10 million threshold, the Department determined that using 2.5 percent as the baseline for erroneous payments was the most pragmatic and efficient means to obtain a starting point.

Related Information. OMB guidance on implementing the Improper Payments Information Act of 2002 can be found at http://www.whitehouse.gov/omb/memoranda/m03-13.html.

Additional Information. The Department uses data mining (an analysis of existing data to identify patterns) to identify potential misuse/abuse of both purchase and travel cards. Software applications are used to seek and identify weekend purchases, inappropriate purchases, and use of the travel card and/or ATM withdrawals when employees are not in travel status. In addition, the span of control for purchase cards was reduced; travel card limits were lowered across the board; and travel cards that have not been used in more than one year are being deactivated.

6.1.7 Federal administrative cost per grant transaction

Fiscal Year	Discretionary Grants Actual	Formula Grants Actual
2002	---	---
2003	**$8,128**	**$4,065**
We set a baseline in 2003.[43]		

Source. Department of Education, Financial Management System Software (FMSS).

Data Quality. The baseline calculation is not limited to a single transaction in the grant award process; it includes time spent on the Planning, Reviewing, and Pre-Award and Award functions of discretionary and formula grants. Discretionary and formula grants do not include grants that are provided under the Student Financial Assistance programs. In addition, the baseline calculation does not make a distinction between new awards and continuation awards.

The costs calculated by the Department reflect the costs per grant award, not the cost per single grant transaction. The Department intends to modify the language of this performance measure.

Additional Information. During FY 2003, the Department expended approximately $130 million to award 21,044 grants totaling $38 billion. The Department determined that one full-time equivalent (FTE) produces approximately 23 discretionary grants or 42 formula grants.

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[42] Our *2003 Annual Plan* identifies measures of erroneous payments in terms of amount and number. In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified these measures to be based on percentage to provide trend data consistent with industry standards, and we established a 2003 target of setting the baseline.

[43] In our Interim Adjustments to the *Strategic Plan*, submitted with the *FY 2004 Annual Plan*, the Department modified the 2003 target to be to set the baseline because the baseline was not previously set.

Administrative costs generally rise every year. Therefore, it is most likely that the cost of awarding grants will correspondingly rise each year. The three variables that primarily affect the administrative cost of grant awards are

- amount of appropriations,
- number of staff, and
- number of grants.

Knowing that federal salaries increase some amount every year illustrates this point. In addition, despite vast improvements as a result of technological advances (e.g., the governmentwide e-grants initiative), the savings are seen in time rather than directly in dollars. The Department is tracking the grant award schedules and hopes to be able to demonstrate this type of savings by the next reporting period.

Objective 6.2: Management of Human Capital

6.2.1–6.2.4 (Discontinued**) Percentage of ED Employees with certain beliefs

Fiscal Year	Employees are focused on results and show interest in improving the services of their organization	Employees hold their leaders in high regard	Employees believe their organization has set high but realistic results-oriented work expectations for them	Employees believe their organization supports their development and expects them to improve their skills and learn new skills to do their jobs better
2000	52	56	62	71
2001	///	///	///	///
2002	**55**	**66**	**77**	**83**
2003	---	---	---	---
	We exceeded our 2002 target of 52. Data for 2003 are unavailable and not expected.	We exceeded our 2002 target of 56. Data for 2003 are unavailable and not expected.	We exceeded our 2002 target of 62. Data for 2003 are unavailable and not expected.	We exceeded our 2002 target of 71. Data for 2003 are unavailable and not expected.

Source. Department of Education, ED Employee Survey, administered December 1999–January 2000 using a modified version of the Office of Personnel Management (OPM) Organizational Assessment Survey (FY 2000 data).

Office of Personnel Management, Federal Human Capital Survey, administered May 2002–August 2002, results released to federal agencies March 2003 (FY 2002 data).

Data Quality. The wording of the questions on the two survey instruments differs, but the underlying concepts are similar. No similar survey was conducted in FY 2003.

Additional Information. These indicators were replaced with new indicators in the revisions to the *Strategic Plan* that were published in the *FY 2004 Annual Plan*. The employee surveys measure perception of the Department's human capital management strategy, but did not provide information on the progress or results of its implementation. The new measures provide annual, objective information that the Department can use to direct its management activities and reforms.

The 2002 data represent respondents who provided favorable or neutral responses to the following:

6.2.1: "Employees have a feeling of personal empowerment and ownership of work processes."

6.2.2: "I hold my organization's leaders in high regard."

6.2.3: "I am accountable for achieving results."

6.2.4: "Employees receive the training they need to perform their jobs."

** In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department discontinued these measures effective FY 2004.

6.2.5 Percentage of principal offices that have identified recruitment needs in their principal office recruitment plan and that are taking actions to fill critical positions with needed skills[45]

Fiscal Year	Actual
2002	///
2003	**89%** of offices identified recruitment needs. No data are available on actions to fill critical positions.

We made progress toward our 2003 target of 50% of offices identifying recruitment needs and taking actions to fill critical positions with needed skills.

Source. Department of Education, Office of Management (OM), Human Resources Service, Analysis of 2003 Recruitment Plans submitted as of August 2003.

Data Quality. The status of "made progress" is assigned based on the percentage of offices that identified recruitment needs. Data will be available on actions to fill critical positions in the third quarter of FY 2004.

When the recruitment plans are updated in FY 2004, data will be available on actions taken to fill leadership and mission critical positions, as identified in the initial recruitment plan.

Additional Information. The Department exceeded expectations on the completion of recruitment plans, but does not yet have data to determine whether offices are taking actions that result in closing critical skills gaps. Seventeen of 19 offices have recruitment plans; 2 offices are completing their plans. One office, IES, is reorganizing; it is excluded this year and will be included next year. The analysis of the first recruitment plans will be carried out in the third quarter of FY 2004. This will allow the Department to track separations and appointments over time.

6.2.6 (Discontinued[46]) Percentage of managers satisfied with services received from OM when hiring staff

Fiscal Year	Actual
2002	52
2003	---

Data are unavailable and not expected.

Source. Department of Education, Managers' Survey, November–December 2003.

Data Quality. The Department's Office of Management sent the FY 2002 HRS Satisfaction Survey to 589 managers in the Department. The overall response rate for the Managers' Survey was 22 percent.

Additional Information. This measure is being replaced by measures that are more consistent with the Department's overall human capital plan.

6.2.7 Number of positions for which solicitations are issued under the revised A–76 guidelines[47]

Fiscal Year	Actual
2002	///
2003	**25.4%** of the 2000 Fair Act Inventory

We exceeded our 2003 target of 15% of the 2000 Fair Act Inventory.

Source. Department of Education, Office of the Chief Financial Officer.

Data Quality. The number of FTE is based on the statements of work that were issued for the two business functions being competed under the A–76 guidelines. There are no data limitations.

Related Information. The request for proposal (RFP) for Human Resources/Training can be found at http://www1.eps.gov/spg/ED/OCFO/CPO/ED-03-R-0016/listing.html.

The RFP for Payment Processing can be found at http://www1.eps.gov/spg/ED/OCFO/CPO/ED-03-R-0015/listing.html.

Information about the A-76 guidelines is available at http://www.whitehouse.gov/omb/circulars/a076/a76_incl_tech_correction.html.

Additional Information. On June 30, 2003, the Department issued RFPs for both the Human Resources/Training and Payment Processing competitions. The Human

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[45] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department used this measure to replace the "skill gap" measure stated in our *2003 Annual Plan* with this measure and modified the target accordingly.

[46] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department discontinued this measure effective FY 2004.

[47] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department revised this measure to align with governmentwide standards.

Resources/Training RFP includes services currently being performed nationwide, including staffing, classification, hiring, employee relations, and training and development activities. The Payment Processing RFP includes services currently being performed nationwide, including timely and accurate processing and issuance of funds to satisfy obligations for nongrant/loan requests for payment. The responses to both RFPs were submitted on August 14, 2003. The Department expects to finalize the competitions in FY 2004.

6.2.8 (New[48]) Percentage of performance, cash, and time-off awards that are given to employees with ratings in the top three levels in the EDPAS system

Fiscal Year	Actual
2002	///
2003	**100**
We met our 2003 target of 100.	

Source. Department of Education, Federal Personnel and Payroll System, Education Department Performance Appraisal System (EDPAS), Awards data and ratings of record.

Data Quality. There are no data limitations. Data reflect awards granted between May 1 and August 9, 2003; 99.8 percent was rounded to 100 percent.

Additional Information. Of 1,117 awards, 1,115 were given to employees who were rated successful or higher (99.8 percent). Two awards (time off) went to an employee rated minimally successful (MS) (0.2 percent).

6.2.9 (New[49]) Percentage of personnel in the lowest two EDPAS rating levels who have performance improvement activities under way

Fiscal Year	Actual
2002	///
2003	**55**
We did not meet our 2003 target of 70.	

Source. Department of Education, Federal Personnel and Payroll System (to identify employees with ratings of minimally successful [MS] and unacceptable [U]) and data submitted by Principal Offices (on performance improvement activities for these employees).

Data Quality. There are no data limitations.

Additional Information. Fifty-five percent (36) of the 65 employees who were rated MS or U have performance improvement activities under way (29 do not). Organizations that have not initiated improvement activities are being advised to do so and provided guidance as to what could be done. Fifteen percent (10) of the 65 employees are either retiring, have new positions, are under a proposal for removal, or have long-term illnesses, which impacted the managers' ability to have performance improvement activities under way.

6.2.10 (New[50]) Percentage of EDPAS employees who have documented ratings of record

Fiscal Year	Actual
2002	///
2003	**86**
We exceeded our 2003 target of 80.	

Source. Department of Education, Federal Personnel and Payroll System ratings for the Education Department Performance Appraisal System (EDPAS) rating period from January 1–April 30, 2003.

Data Quality. There are no data limitations. Data reflect information in FPPS as of August 2003.

Additional Information. A new rating system, EDPAS, was developed and implemented for General Schedule employees, linking their performance standards to the Department's strategic priorities and presenting five levels of performance. Of 4,233 employees eligible to receive an EDPAS rating, 3,637 employees have ratings on file.

This first shortened rating cycle of EDPAS indicates that ratings better reflect differences in employee performance. Under the prior pass-or-fail system, only 7 to 10 employees nationwide (0.2 percent) would receive a rating of fail. Under EDPAS, 1.5 percent of employees who were rated received a less than successful rating.

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[48] The Department established this measure in our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*.

[49] *Ibid.*

[50] *Ibid.*

Objective 6.3: Information Technology

6.3.1 Percentage of major IT investments that achieve less than a 10% variance of cost and schedule goals[51]

Fiscal Year	Cost Variance Actual	Schedule Variance Actual
2002	**94.4**	**83.3**
2003	Target is 60.[52]	Target is 60.
We exceeded our 2002 target of 50. Data for 2003 are pending.		

Source. Department of Education, Office of the Chief Information Officer, Earned Value Management System Workbook.

Data Quality. The data are collected as part of the Information Technology (IT) Investment Management process Select and Control phases. Project managers provide cost and schedule information for their development milestones and operational expenditures. The project managers formulate estimates of remaining work based on actual costs to date, the percentage of milestones complete, their own knowledge of the initiative, and contractor feedback where applicable.

Additional Information. The data for FY 2003 will be available in November 2003.

During FY 2003, the Department instituted a cost and schedule of milestones baseline change management process. Project managers' requests to modify a baseline are considered by the Planning and Investment Review Group Leadership Team (PIRWG LT).

6.3.2 (Discontinued[53]) Percentage of customer ratings of ED IT services "good" or "better"

Fiscal Year	Actual
2002	90
2003	**92.3**
We made progress toward our 2003 target of 95.	

Source. Department of Education, information derived from customer service help desk survey results.

Data Quality. Data are generated from an automated survey system. Survey is administered by e-mail. There are no data limitations.

Additional Information. This performance measure was discontinued effective FY 2004 because it does not measure the progress the Department is making in implementing the *President's Management Agenda* e-government initiative.

The Department surveys every fifth customer that receives IT related customer service. In 2003, 5.3 percent of customers that filled out the survey did not answer the one question regarding the overall service received from OCIO. In researching the comments received, most complaints were about help desk procedures. The Department has updated these procedures and is continuously reviewing ways to improve customer service.

6.3.3 OMB burden hour estimates of Department program data collections per year

Fiscal Year	Actual
1999	42.07 M
2000	40.93 M
2001	40.65 M
2002	38.40 M
2003	**39.06 M**
We did not meet our 2003 target of 38.	

Source. Department of Education, Office of the Chief Information Officer (OCIO), Program files.

Office of Management and Budget, Burden calculations.

Data Quality. Data are validated by internal review procedures of the Regulatory Information Management Group of the OCIO. Data are estimated for all of the Department's data collections from the public. The Department makes initial estimates and OMB later confirms those estimates or provides revised estimates. In the table above, data for 2003 are based on the Department's estimates. OMB will confirm these estimates or provide revised estimates in late November 2003.

Related Information. The information collection document that outlines all OMB approved collection efforts, as well as those collections waiting for OMB approval (pending), are available at http://edicsweb.ed.gov.

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[51] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department revised this measure, replacing *significant* with *major*.

[52] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department raised this target to 90 percent based on trend data. However, we provide the required comparison here, based on the target set in our *2003 Annual Plan*.

[53] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department discontinued this measure effective FY 2004.

Additional Information. Overall, the Department reduced the burden hours for collections compared to FY 2002 collection requirements and regulations. The 39.06 million figure includes 1.01 million hours that resulted from *new* data collections required for NCLB and other Department programs and an increase in the number of loan and grant applicants during FY 2003. These factors and others have and will most likely continue to result in an increase in burden hours for existing collections. In light of these factors, the Department plans to revise its targets for FY 2004 and FY 2005.

6.3.4 (New[54]) Percentage of loan programs providing online application capability

Fiscal Year	Actual
2003	**100**
We exceeded our 2003 target of 95.	

6.3.5 (New[55]) Percentage of grant programs providing online application capability

Fiscal Year	Actual
2000	5
2001	20
2002	29
2003	**57**
We exceeded our 2003 target of 15.	

Source. Department of Education, Federal Student Aid Title IV Systems and Office of the Chief Financial Officer, Grant Administration and Payment System (GAPS).

Data Quality. There are no data limitations.

Additional Information. All of the Department's Title IV loan programs provide online capability. In addition to the fact that the eligibility application, Free Application for Federal Student Aid (FAFSA), is available online, students and parents can also complete and sign loan applications/promissory notes online.

Three formula grant programs and 106 (or 57 percent of) discretionary grant programs used e-Application to receive electronic applications. This is an increase of 54 discretionary programs over 2002 and 73 programs since 2001. This is the fourth year that the Department's e-Application system for grants has been available. The e-Application system supports all of the Department's standard forms and has been modified to support additional program specific forms and requirements for programs that do not use the Department's standard forms and application process.

6.3.6 (New[56]) Percentage of currently identified Tier 1 and 2 systems that complete Certification and Accreditation

Fiscal Year	Actual
2003	**10**
We met our 2003 target of 10.	

Source. Department of Education, Office of the Chief Information Officer (OCIO), Program files.

Data Quality. There are no data limitations.

Additional Information. The Department completed Certification and Accreditation for the following six Tier 2 systems, which represent 10 percent of all Tier 1 and 2 systems:

- OCIO GISRA POA&M Database
- OCR Elementary and Secondary School Civil Rights Compliance Report—Major Application
- OCR Elementary and Secondary School Civil Rights Compliance Report—General Support System
- OCR Case Management System
- OM Security Tracking System
- FSA EZ-Audit System

The certification and accreditation of all Tier 1 and 2 systems will be completed no later than December 31, 2004. The Department expects to complete the certification and accreditation for all Tier 3 and 4 systems by December 31, 2003.

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[54] The Department established this measure in our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*.
[55] *Ibid.*
[56] *Ibid.*

Objective 6.4: Student Assistance Programs

6.4.1 Student Financial Assistance programs will leave the GAO high risk list and will not return[57]

Fiscal Year	Actual
2002	Completed 94% of the High Risk Plan
2003	**The audit opinion is clean; SFA programs remain on the GAO High Risk List.[58]**
We made progress toward our 2003 target of a clean opinion and leaving the GAO High Risk List.	

Source. Department of Education, Office of Federal Student Aid (FSA) High Risk Plan and Progress Reports.

Independent Auditors' FY 2003 Financial Statement and Audit Report.

Data Quality. Independent auditors follow professional standards and conduct the audit under the oversight of the Office of Inspector General. In addition, internal quality control procedures are followed to ensure that the data are correct.

Additional Information. The Department and FSA each received a clean opinion on their financial statements for FY 2002 and FY 2003. The clean opinions are important milestones in the Department's efforts toward creating a permanent culture of accountability and are crucial to FSA's efforts to have the Student Financial Assistance (SFA) programs removed from the General Accounting Office (GAO) High Risk List.

On June 9, 2003, GAO denied the Secretary's request for a special "off-cycle" reconsideration of the designation of SFA programs as high risk. GAO reviews the programs it designates as high risk on a biennial basis. The past assessment was conducted in FY 2002 with publication in January 2003. The next assessment opportunity will be in FY 2004 with publication of the final report in January 2005. FSA has made considerable progress in FY 2003 in building on its foundation for management. Improvements have been made in financial management, in program integrity, and in the strategic management of human capital. In addition, FSA is improving its management of information technology resources to improve services for customers and partners and is moving forward with its modernization of FSA programs to improve their integrity. FSA will continue to work with GAO staff to ensure that they are informed of our progress towards resolving Department management issues and sustaining improvement in the SFA programs.

6.4.2 Default recovery rate in percent

Fiscal Year	Actual
1999	8.0
2000	7.5
2001	7.8
2002	7.6
2003	**9.5**
We exceeded our 2003 target of 7.6.	

Source. Department of Education, Debt Collection Management Systems (DCMS) Management Information System (MIS) reports.

Data Quality. Internal quality control and auditing procedures are followed to ensure that the data are correct.

Additional Information. As of September 30, 2003, FSA had recovered $1.33 billion of the $13.975 billion in defaulted loans held by the Department.

6.4.3-6.4.4 Percentage of Pell Grants overpayments[59] and erroneous[60] payments

Fiscal Year	Overpayments Actual	Erroneous Payments Actual
2001	3.4	///
2002	3.3	///
2003	**3.1**	**4.9**
We met our 2003 overpayment target of 3.1. We did not meet our 2003 erroneous payment target of 3.6.		

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[57] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified the measure statement to correctly reference the programs.

[58] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified this target by adding the achievement of a clean audit opinion.

[59] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified the statement of this measure from amount to percentage to be consistent with best practices. Actual data values were recomputed under the new definition and targets were modified accordingly.

[60] The Department established this measure in our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*.

Source. Analysis of sampled Internal Revenue Service income data to data reported on the Department of Education's Free Application for Federal Student Aid (FAFSA) reported by FSA and Recipient Financial Management System.

Data Quality. The overpayment measure is determined by dividing the estimated dollar amount of overpayments by the total dollar value of Pell Grants awarded in FY 2003. The erroneous payments measure is determined by totaling the dollar amount of estimated overpayments and underpayments and dividing by the total dollar value of Pell Grants awarded in FY 2003.

Additional Information. FSA has implemented numerous strategies for reducing erroneous payments in the Federal Pell Grant Program. We continue to use applicant data from the Central Processing System (CPS), Pell payment data from Common Origination and Disbursement (COD) system, and IRS data to refine and improve our verification selection criteria to better identify applicants who are likely to have made income-reporting errors on their FAFSA that would result in significant over-awards in the Pell Grant Program. In addition, we continue to review MIS reports, as well as customized queries of the CPS, to identify and analyze fields on the FAFSA that are frequently corrected and, therefore, potentially most error prone. In combination with these efforts, we continue to conduct usability testing on the FAFSA to identify questions that applicants and their families have difficulty understanding. These questions have been reworded on the 2004–05 FAFSA to be clearer and, therefore, easier for applicants to answer accurately. We have also added additional logic to our Web applications that is designed to detect and point out to applicants potential mistakes before application data is transmitted to the CPS. FSA has also taken additional steps to inform students and parents who estimate income information on the FAFSA that they must compare their FAFSA answers to their tax returns once they have completed them and to promptly make any necessary changes to their FAFSA data to avoid losing or having to repay federal student aid they have received. Most important, we are continuing to work with OMB and Treasury in support of proposed legislation to revise the IRS Code to authorize the matching of Title IV SFA applicant data to tax return data.

6.4.5 Timeliness of FSA major system reconciliations to the general ledger in days

Fiscal Year	Actual
2002	45
2003	**Oct–Mar: 35 days** **Apr–Sept: 24 days**

We exceeded our 2003 target of Oct-Mar: 40 days and Apr-Sept: 30 days.[61]

Source. Department of Education, Internal System Reports.

Data Quality. Internal quality control and auditing procedures are followed to ensure that the data are correct.

Additional Information. On the average during FY 2003, FSA reconciled its program accounts to supporting detail within the time targeted.

6.4.6 Customer service (measure of service levels of targeted FSA transactions with public)

Fiscal Year	FSA Product or Service Being Measured	Actual
2002	---	---
2003	FAFSA on the Web	**86**
	Direct Loan Servicing	**77**
	Common Origination & Disbursement (COD) Service	**66**
	Lender Reporting System (LaRS)	**71**

We set baselines in 2003.[62]

Source. FY 2003 American Customer Satisfaction Index (ACSI) survey.

Data Quality. ACSI scores are indexed from 1–100. ACSI provides a national, cross-industry, cross-public and -private sector economic indicator produced by a partnership of the National Quality Research Center (at the University of Michigan Business School), CFI Group, and the American Society for Quality. The ACSI uses a widely accepted methodology to obtain standardized customer satisfaction information.

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[61] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department replaced TBD, which appeared in our *2003 Annual Plan*, with this numerical target.

[62] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department replaced TBD, which appeared in our *2003 Annual Plan*, with a target of setting a baseline in 2003.

Additional Information. FSA customer surveys were not undertaken during FY 2002 so that the Department could evaluate prior survey efforts to make certain that methodologies were valid, that satisfaction efforts were aligned to the appropriate business processes or products, and that the obtained information warranted the resources expended. The FY 2003 FSA customer service surveys are more focused than in the past to obtain only the most pertinent information about the most high profile, frequently used products.

FAFSA on the Web is the Web-based product that applicants complete to determine their eligibility for federal student aid. As of October 1, 2003, about 7.7 million out of a total of 11 million applicants have used *FAFSA on the Web*. *Direct Loan Servicing* is the process by which loans are repaid and includes the issuing of monthly statements, collecting of loan balances, and offering customer-service help and Web-based help and information. As of September 2003, there were approximately 4.1 million borrowers in a repayment status with a combined outstanding principal balance of $55.5 billion. The *Common Origination and Disbursement* (COD) system is the mechanism that schools use to receive and account for federal funds used in the Direct Loan and Pell Grant Programs. Nearly 5,300 schools participating in the Pell and/or Direct Loan Programs used the COD during the 2002-2003 academic year. Altogether, $23.7 billion in grants and loans were processed through this system. The *Lender Reporting System* (LaRS) is the mechanism that lenders and servicers use to receive interest and special allowance payments from the Department on their active Federal Family Education Loan (FFEL) Program loan portfolios. Approximately 4,000 lenders and/or their servicers use LaRS.

FSA ACSI scores (indexed from 1–100) are generally good and are in the range of national benchmarks including the national ACSI that stands at 74, federal agencies with a score of 70, and the banking industry with an average of 74. The *FAFSA on the Web* score is exceptional and compares favorably with amazon.com, which, with a score of 88, is the highest rated company in the ACSI index. Scores for COD and LaRS are lower than the student and borrower customer groups, but are in line with business-to-business satisfaction results, which tend to run 5-10 points lower (65–74 for banking and telecommunications).

6.4.7 Integration of FSA processes and systems that work together to support FSA program delivery functions[63]

Fiscal Year	Actual
2002	100
2003	**Met 100% of the targets in FSA's sequencing plan; updated integration plan through the data strategy effort.**

We met our target of meeting 100% of the targets in FSA's sequencing plan and re-evaluating our targets for 2004–2007.[64]

Source. Department of Education, Internal FSA Progress Reports.

Data Quality. Internal quality control and auditing procedures are followed to ensure that the data are correct.

Additional Information. FSA has made considerable progress in furthering its integration goals. Notable accomplishments for FY 2003 include the following:

- Enhancing Forms 2000
- Retiring RFMS and DLOS
- Stabilizing LAP/LaRS
- Implementing ezAudit
- Creating an integrated project management oversight group
- Implementing an electronic PLUS master promissory note
- Starting the procurement of the Common Services for Borrowers (CSB) solution

In FY 2003, FSA also began defining a comprehensive Enterprise Data Strategy and implementation approach to address system integration needs.

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[63] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified this measure statement for clarity.

[64] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department replaced TBD, which appeared in our *2003 Annual Plan*, with a specific target.

Objective 6.5: Budget and Performance Integration

6.5.1 Percentage of Department programs reviewed under the PART process that demonstrate effectiveness[65]

Fiscal Year	Actual
2002	22
2003	Target is 40.
Data for 2003 are pending.	

6.5.2 Percentage of Department program dollars associated with programs reviewed under the PART process that demonstrate effectiveness[66]

Fiscal Year	Actual
2002	46
2003	Target is 60.
Data for 2003 are pending.	

Source. Department of Education, Analysis of Program Assessment Rating Tool (PART) findings.

Data Quality. Only programs for which PART reviews are complete are eligible to be identified as effective. PART analysis began in 2002. Over the five-year period 2002 through 2006, the Department will conduct PART analyses on all programs.

Effective is defined as a score of at least 50 percent on Section IV of the PART, which evaluates program results. Measure 6.5.1 compares the number of effective programs to the total number of programs that were reviewed under the PART. Measure 6.5.2 compares the appropriations for the effective programs to the appropriations for all programs that were reviewed under the PART. FY 2002 data reflect FY 2002 appropriations and programs that had PART reviews conducted during FY 2002. Appropriation amounts include only program budget authority and exclude salaries and expenses budget authority. FY 2003 data, when available, will reflect FY 2003 appropriations and programs that had PART reviews conducted during or prior to FY 2003. Data for 2002 have been revised to reflect final PART scores. (The *FY 2002 Performance and Accountability Report* used preliminary PART scores.)

For many programs that do not demonstrate effectiveness, the Department has not yet collected sufficient performance data. No conclusion should be drawn that programs that did not meet this standard for *effective* are ineffective.

Related Information. Information about the OMB PART process is available at http://www.whitehouse.gov/omb/budintegration/part_assessing2004.html.

Additional Information. Data for FY 2003 are expected in February 2004. The NCLB made significant changes to most of the Department's elementary and secondary education programs. We expect to see major improvements in performance information over the next two years as performance measures are improved, data on the first full year of implementation of NCLB become available, and the Performance-Based Data Management Initiative becomes operational.

Objective 6.6: Faith-Based and Community Organizations

6.6.1 (Discontinued[67]) Percentage of non-statutory barriers relating to technical assistance and outreach identified in the Report on Findings that are removed

Fiscal Year	Actual
2002	60
2003	**80**
We exceeded our 2003 target of 75.	

Source. Department of Education, Office of the Secretary, Center for Faith-Based and Community Initiatives.

Additional Information. This performance measure was removed effective FY 2004 because there is only one nonstatutory barrier identified in the *Report on Findings* that needs to be removed. This barrier is the lack of technical assistance and outreach. Eighty percent of this barrier has been removed through the following outreach efforts:

- Seven regional conferences explaining grants process to 10,000 faith-based and community organizations (FBCOs).

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[65] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified the statement of this measure to be consistent with OMB's use of the PART to measure program effectiveness. Actual data values for the prior year were recomputed under the new definition and targets were modified for consistency.

[66] *Ibid.*

[67] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department discontinued this measure effective FY 2004.

- Eight workshops on becoming a supplemental service provider attended by 883 FBCOs.
- Web cast tutorials for each discretionary grant program.
- Two workshops on after-school programs attended by 150 FBCOs.
- Web site that provides user-friendly catalogue of grant information and detailed guidance on seeking grants.

6.6.2 Percentage of programs amenable to participation by FBCOs in which novice applicant reform is implemented[68]

Fiscal Year	Actual
2002	62
2003	**100**
We exceeded our 2003 target of 50.	

Sources. "Community Technology Center," *Federal Register*, Vol. 68, no. 119 (June 20, 2003): 37059.

"Carol M. White Physical Education," *Federal Register*, Vol. 68, no. 62 (April 1, 2003): 15912.

"Early Reading First," *Federal Register*, Vol. 68, no. 47 (March 11, 2003).

"PIRC Grant," *Federal Register*, Vol. 68, no. 131 (July 9, 2003): 40913–40914.

Data Quality. There are no data limitations.

Related Information. Information on initiatives of the Center for Faith-Based and Community Initiatives at the Department of Education is available at http://www.ed.gov/faithandcommunity/.

Additional Information. Novice applicant reform was implemented in the four Department grant programs open to FBCOs.

6.6.3 (New[69]) Number of grant applications from FBCOs in discretionary grant programs

Fiscal Year	Actual
2002	///
2003	Target is setting a baseline.
Data for 2003 are pending.	

Source. Department of Education, Office of the Secretary, Center for Faith-Based and Community Initiatives.

Additional Information. The data for FY 2003 will be available by December 2003.

Objective 6.7: President's Quality Award

6.7.1 President's Quality Award

Fiscal Year	Actual
2002	Applied for the award and gained insight
2003	**Applied for the award and gained insight**
We met our 2003 target of applying for the award and gaining insight.	

Source. Department of Education, Office of Management, Application materials.
Office of Personnel Management (OPM).

Data Quality. Award status is reported by the OPM.

Additional Information. The Department submitted three applications for the President's Quality Award on September 5, 2003.

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[68] In our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*, the Department modified this measure statement for clarity.

[69] The Department established this measure in our Interim Adjustments to the *Strategic Plan*, submitted with our *FY 2004 Annual Plan*.

Appendix B

Performance Data Quality and Timeliness

Appendix B

Performance Data Quality and Timeliness

The quality of the Department's data lies on a continuum, as do the procedures used to verify and validate those data. The Department is working on a number of fronts to increase the quality of its data by improving its data systems and procedures. As an example of high-quality data, National Center for Education Statistics (NCES) data undergo extensive reviews and must conform to the rigorous standards of that statistical division of the Department. NCES is listed as the data source for over one-third of our fiscal year (FY) 2003 measures. An additional group of our measures derive their results from statistical divisions of other federal agencies, such as the Office of Management and Budget (OMB) or the Census Bureau, and as such also undergo vigorous validation and verification. Most of the remaining performance measures use program files or self-reported information from grantees, such as the consolidated state report, as their data source. Program file data varies in quality. Some offices have instituted internal data quality review, others use peer review, and some have required quality reviews by the relevant data collection and analysis contractors. In addition, the Department has undertaken several initiatives discussed below to improve the timeliness and quality of its data.

To provide more information on the data source for each performance measure, the Department identifies verification, validation, and limitations in appendix A under the "Data Quality" subsections. In this appendix, we present some of the initiatives to improve data quality Department-wide and within specific programs.

The Department took a number of steps to address the fundamental issues of data quality in FY 2003. Quality, for the purposes of this report, refers not only to the issue of data accuracy, but also to the issues of timeliness in reporting, efficient and effective reporting procedures and systems, and the use of data to inform management decisions. Among the Department's steps this past year were the following:

- Implementing the Performance-Based Data Management Initiative (PBDMI), to transmit key K–12 indicator data directly from states into a new Department-wide data repository that will come online in the spring of 2005, the Education Data Exchange Network (EDEN).
- Increasing the frequency of the National Assessment of Educational Progress (NAEP) testing while decreasing the time from test administration to reporting.
- Improving program performance measures for all programs through direct technical assistance, regular training sessions and coordination around Program Assessment Rating Tool (PART) reviews.
- Notifying our potential grantees in their applications of the data requirements for the programs by identifying Government Performance and Results Act (GPRA) indicators and performance reporting requirements in grant application packages.
- Improving grantee focus on data quality by developing innovative approaches to encourage attention to and improvement of grantees' own data systems.

Developing the Performance-Based Data System and the Education Data Exchange Network

"We spend millions of dollars every year to collect data on and evaluate our programs," Paige said. "This is a serious effort to provide more value for the taxpayer's dollars in these activities. We aim to establish a more efficient data collection and dissemination system, one that provides timely and more useful information to those who work every day to improve student achievement." The PBDMI is a major component of this data-based approach to program improvement. This initiative is building a collaborative electronic exchange system for performance information on federal K–12 education programs.

What are PBDMI and EDEN?

PBDMI is a multiple-year effort to consolidate the collection of education information from states, districts, and schools in a way that improves data quality and reduces paperwork burden for all the national education partners.

EDEN, the system being developed by PBDMI, will be a database repository system where users can query for data to satisfy their information needs. EDEN will have analysis and reporting tools that will allow users to obtain organized and formatted information about the status and progress of education in the States, districts, and schools.

In FY 2003, the Department completed the identification of the minimum information requirements for a core set of programs and developed a list of data elements. Data requirements for state formula grant programs in elementary and secondary education, vocational and adult education, special education, and English language acquisition were reviewed together with data gathered in national surveys by NCES and the Office for Civil Rights (OCR). Visits to 51 state educational agencies (SEAs) documented their capacity to provide these data elements and to negotiate data transfer protocols. The SEAs indicated that it was useful to know what types of information will be included in PBDMI so that they can begin to adjust their data collection systems, which they are revamping to meet the reporting requirements for No Child Left Behind (NCLB) as well as state needs for improved information. In addition, the visits helped SEA staff obtain a more comprehensive view of data collection activities within their states and helped Department staff learn more about how data are collected from districts and schools and how technology can be used to streamline data collection.

The Department's assistance to SEAs with the provision of data through PBDMI continued beyond the site visits. Following each site visit, the Department negotiated with each state a cooperative services agreement that provided each state with $50,000 to assist in developing the state's capacity to participate in the resulting EDEN. The Department also provided experienced education data consultants to work with states to improve the quality, timeliness and accessibility of their education data.

The Department also began plans to migrate the OCR Elementary and Secondary Schools Survey (E&S Survey) to the Department's EDEN system. As a central database, EDEN will become the main repository for Department K–12 data, including NCLB data. Based on feedback from states, we know that there will be some critical civil rights data needs that cannot be fulfilled by the states through EDEN's common set of data elements by 2004. In light of this, OCR will aid PBDMI in developing an EDEN supplemental survey tool earlier than originally planned. This tool will capture data that cannot be currently captured through the state-federal data exchange, so that full migration of the OCR Civil Rights Survey into PBDMI can occur in 2004. Because the E&S Survey is migrating to EDEN and will no longer need to conduct its own Web-based data collection survey, OCR invested FY 2003 funds previously targeted specifically for developing and implementing an OCR Web-based survey in a contract to develop EDEN's supplemental survey tool and pilot the tool's capability. OCR's contribution to EDEN will expedite the Department's development of an integrated data collection system that has the capacity to capture essential NCLB data, important civil rights data, and other significant Department program data not routinely available from SEAs.

> Additionally, specific initiatives... have started to deliver real successes.... For example: **Performance-Based Data Management Initiative (PBDMI)**: At the Department of Education, IT is being used to transform how state student academic performance information is collected and managed... This initiative will result in a streamlined data collection process that reduces burden on State governments and eliminates redundancy across the department.
>
> –Mark Forman (OMB)
> March 13th testimony before the U.S. House Government Reform Committee

To test the value of a shared data repository in 2003, the Department developed a demonstration system that linked a number of the Department's various sources of state demographic, academic, and funding information together. This system provided an example of how PBDMI can support educational program performance and achievement analysis. The test also identified a number of limitations of the current program data and areas where additional education data would be useful. These lessons will be incorporated into EDEN.

Increasing Timely Achievement Data

NAEP, also known as "the Nation's Report Card," now tests students more frequently and reports the data faster than ever before. NAEP is the only nationally representative and continuing assessment of what America's students know and can do in various subject areas. To provide state and national policy makers with reliable and timely data on student achievement, the Department made major changes in NAEP administration,

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including increasing the frequency of reading and mathematics assessments for grades 4 and 8, which are now administered every other year in all states, and reducing the time to report the data. Previously, the time from test administration to reporting results was 15 months; the new target is 6 months.

Improving Program Performance Measures

The Department is working with all offices to develop performance measures that provide valid and reliable evidence that programs are meeting their strategic planning goals while minimizing the burden of reporting for grantees. The Department has also taken a number of steps to integrate performance measurement into our planning, budget, and grant management procedures.

Another effort underway in the Department is to develop common performance measures of teacher quality. The Department, encouraged by OMB, invited the federal program offices that administer the major teacher-related grants to evaluate individual program office performance measures with an eye to finding "common measures" that all teacher-related program offices could support. More than a dozen Department programs focus entirely or in large part on teachers, providing more than $4 billion a year for competitive and formula grants to states, local educational agencies, institutions of higher education, and other entities. Through a series of discussions, the Department's teacher-related programs chose a common measure derived from the NCLB requirement that all teachers of core academic subjects are highly qualified by the 2005–06 school year. The common measure tentatively selected by seven of the Department's teacher-related programs was "the percentage of highly qualified teachers." The use of this measure will align data collection and allow for greater simplicity, reduced burden, and comparisons across programs.

> *Our state learned lessons about holes in our data. We had a lot of data but not all of it was valid. We are now doing a better job with data collection, and mining it more thoroughly than before.*
>
> –Special Education State Partner

Focusing Grant Applications on Data Quality

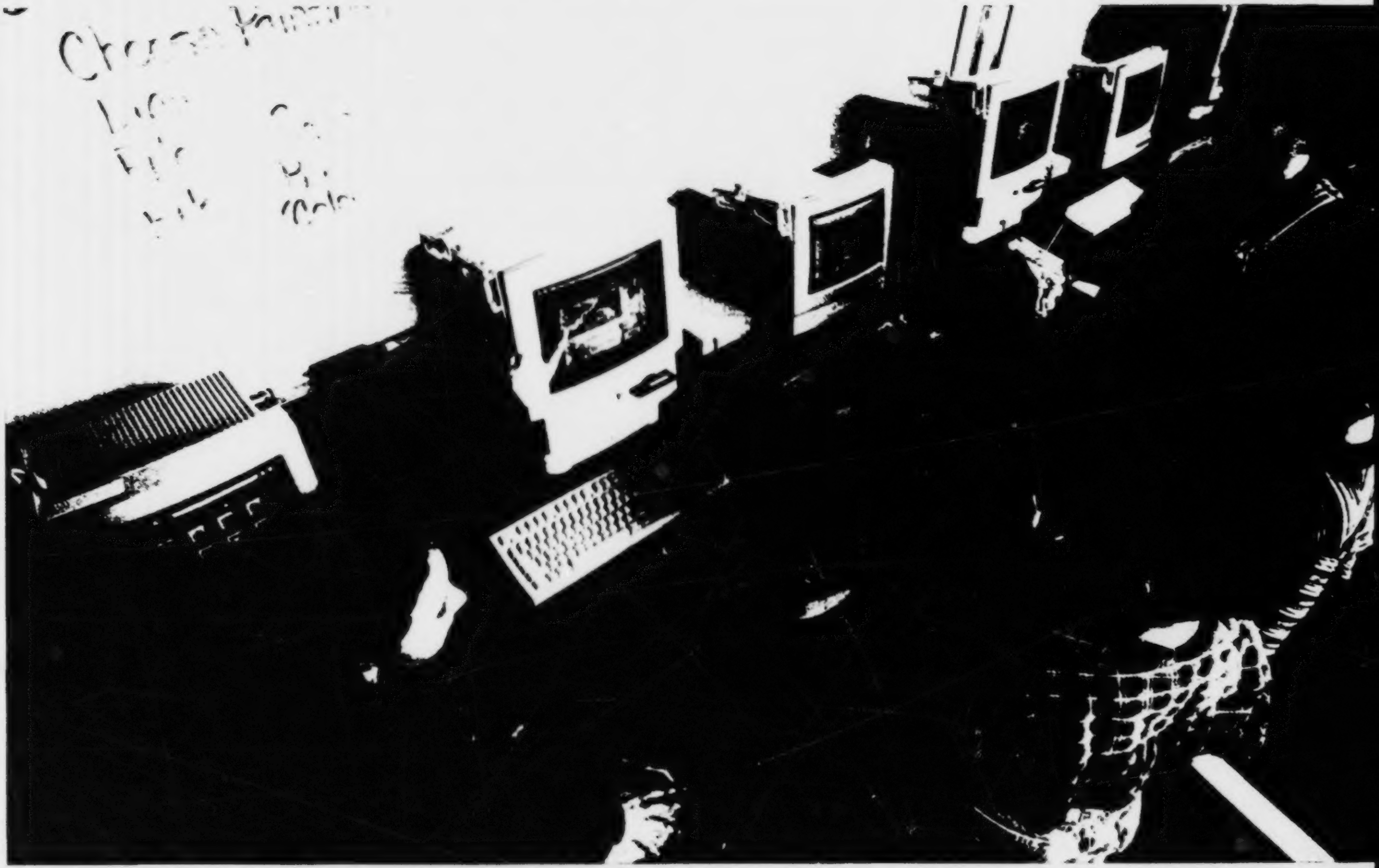
The Department also made the policy in FY 2003 to notify our potential grantees, where applicable, of the data requirements for the programs by inserting the GPRA indicators or other relevant information into grant application packages. By knowing the requirements in advance, grantees should be able to plan and implement performance information systems that will provide accurate and timely data to the Department.

Improving Grantee Focus on Data Quality

Many of the Department's program offices made data quality improvements throughout FY 2003. Just a few of those are highlighted here.

Special Education. The Department implemented focused monitoring procedures of special education programs under the Individuals with Disabilities Education Act (IDEA) to improve the quality of special education data. A joint initiative was initiated in July 2003, to provide technical assistance to states around five critical performance indicators that are used to measure state performance through continuous improvement monitoring of special education programs. This initiative establishes technical assistance "Communities of Practice" around each of the performance indicators to address IDEA data validity and reliability. States with an interest in improving their performance around one or more of the critical performance indicators join these Communities of Practice to engage in joint problem solving and to access resources and expertise on up-to-date research-based practices.

Federal Student Aid (FSA). As part of the development of an Enterprise Data Strategy, the Department mapped the "As-Is Data Flows" of the financial aid operating systems. The goal of this mapping was to provide a common understanding of how information is introduced, captured, and passed among FSA systems to support the business of delivering and overseeing financial aid authorized by Title IV of the Higher Education Act. Mapping led to a creation of an enterprise view that resulted in a deeper understanding of how and when customers and other aid-related entities pass information through the various financial aid operating systems. This understanding has led to suggestions for improved data quality, enhanced data



standards, and the early stages of a target business architecture that addresses existing inefficiencies in information processing.

Adult Education. The Department published and disseminated to all state adult education offices a data quality handbook titled *Using NRS (National Reporting System) Data for Program Management and Improvement*. Four regional training institutes were conducted and representatives from 48 states attended. The institutes used a "train the trainer" model and were designed to enable states to roll out state-level training to local program staff on data-quality issues.

An accountability system, such as the NRS, relies on quality data for its integrity. The key questions that public and private supporters have about the adult education program can be answered only with reliable data. This important activity provided critical guidance, practical information, materials, and formalized training that enabled states to develop and implement data quality training and technical assistance to thousands of local programs throughout the adult education delivery system.

Rehabilitation Services Administration. The Department has moved the focus of its monitoring from one based on compliance to one based on performance. New approaches to monitoring state agency performance on the standards and indicators developed pursuant to section 106 of the Rehabilitation Act of 1973 are an example of this new focus on performance. To analyze the reason a particular agency does poorly on a particular standard or indicator, staff must rely on tables of relative state agency performance. Central office staff have worked hard to clean state agency data through FY 2001 and have provided regional office staff with many tables that they can use in working with state agencies. In addition, training on analyzing state agency performance is being provided to rehabilitative services regional office staff.

Civil Rights. In FY 2003, the Department implemented a Web-based Civil Rights Case Management System (CRCMS). The CRCMS integrates both case and document management, which will facilitate end-to-end electronic complaint processing. The capacity for electronic complaint filing was added to the Department's Internet site in the fall of 2001 and data suggest that as many as one-third of complaints are now filed electronically. The CRCMS provides staff and managers with network access to data and case information, as well as the ability to perform customized queries. CRCMS' document storage and retrieval capabilities move the Department's civil rights case management from a paper-based system of files toward compliance with the Government Paperwork Elimination Act.

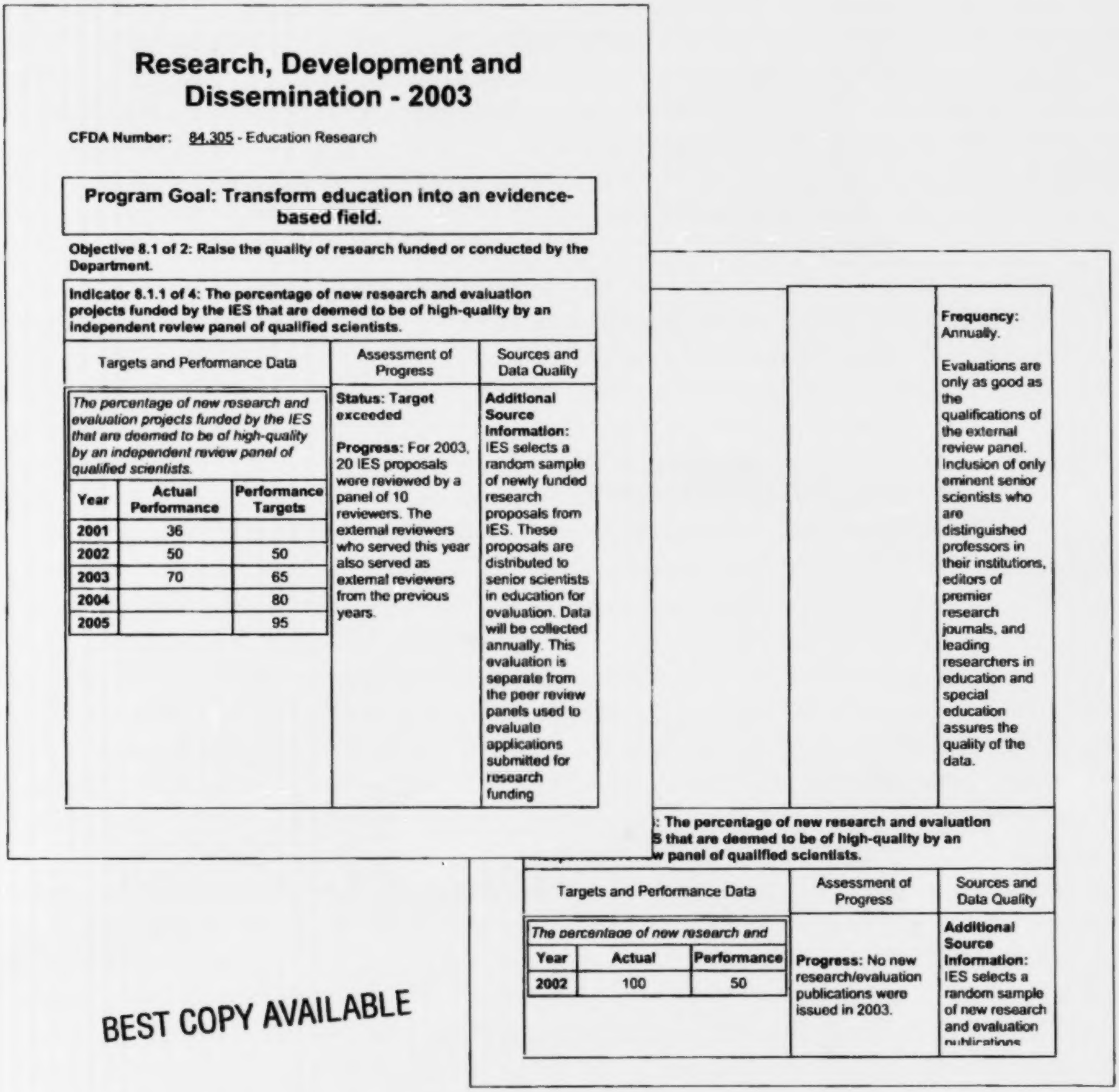
Appendix C

Sample Program Performance Report

Appendix C

Sample Program Performance Report

Department of Education programs with performance measures publish performance reports on the Department's Web site at http://www.ed.gov/about/reports/annual/2003report/index.html. Lists of the Department's programs are on pages 63-64, 74, 83, and 97-98. A sample program performance report as it appears on the Web site is provided below.



Research, Development and Dissemination - 2003

CFDA Number: 84.305 - Education Research

Program Goal: Transform education into an evidence-based field.

Objective 8.1 of 2: Raise the quality of research funded or conducted by the Department.

Indicator 8.1.1 of 4: The percentage of new research and evaluation projects funded by the IES that are deemed to be of high-quality by an independent review panel of qualified scientists.

Targets and Performance Data	Assessment of Progress	Sources and Data Quality
The percentage of new research and evaluation projects funded by the IES that are deemed to be of high-quality by an independent review panel of qualified scientists.	**Status: Target exceeded** **Progress:** For 2003, 20 IES proposals were reviewed by a panel of 10 reviewers. The external reviewers who served this year also served as external reviewers from the previous years.	**Additional Source Information:** IES selects a random sample of newly funded research proposals from IES. These proposals are distributed to senior scientists in education for evaluation. Data will be collected annually. This evaluation is separate from the peer review panels used to evaluate applications submitted for research funding

Year	Actual Performance	Performance Targets
2001	36	
2002	50	50
2003	70	65
2004		80
2005		95

Frequency: Annually.

Evaluations are only as good as the qualifications of the external review panel. Inclusion of only eminent senior scientists who are distinguished professors in their institutions, editors of premier research journals, and leading researchers in education and special education assures the quality of the data.

: The percentage of new research and evaluation S that are deemed to be of high-quality by an w panel of qualified scientists.

Targets and Performance Data	Assessment of Progress	Sources and Data Quality
The percentage of new research and	**Progress:** No new research/evaluation publications were issued in 2003.	**Additional Source Information:** IES selects a random sample of new research and evaluation publications

Year	Actual	Performance
2002	100	50

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Objective 8.2 of 2: Increase the relevance of our research in order to meet the needs of our customers.

<table>
<tr><th colspan="3">Indicator 8.2.1 of 4: The percentage of new research projects funded by IES that are deemed to be of high relevance to educational practice as determined by an independent review panel of qualified practitioners.</th></tr>
<tr><th>Targets and Performance Data</th><th>Assessment of Progress</th><th>Sources and Data Quality</th></tr>
<tr>
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<table>
<tr><th colspan="3"><i>The percentage of new research projects funded by IES that are deemed to be of high relevance to educational practice as determined by an independent review panel of qualified practitioners.</i></th></tr>
<tr><th>Year</th><th>Actual Performance</th><th>Performance Targets</th></tr>
<tr><td>2002</td><td>25</td><td>25</td></tr>
<tr><td>2003</td><td></td><td>37</td></tr>
<tr><td>2004</td><td></td><td>50</td></tr>
<tr><td>2005</td><td></td><td>62</td></tr>
<tr><td>2006</td><td></td><td>75</td></tr>
</table>
</td>
<td>Progress: 2003 data not yet available (10/2003). We don't expect the data will be available before December 2003.</td>
<td>Additional Source Information: External panel of qualified practitioners will evaluate the relevance of a random sample of newly funded research proposals. Data will be collected annually. The final target of 75% recognizes that some important research may not seem immediately relevant, but will make important contributions over the long-term.
Frequency: Annually.
Evaluations are only as good as the qualifications of the external review panel. Inclusion of only experienced practitioners and administrators in education and</td>
</tr>
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<table>
<tr><td></td><td></td><td>special education assures the quality of the data.</td></tr>
<tr><th colspan="3">4: The percentage of K-16 policymakers and ho report routinely considering evidence of effectiveness ducational products and approaches.</th></tr>
<tr><th>rformance Data</th><th>Assessment of Progress</th><th>Sources and Data Quality</th></tr>
<tr>
<td>
<table>
<tr><th colspan="2"><i>K-16 policymakers who report ng evidence of re adopting cts and approaches.</i></th></tr>
<tr><th>nce</th><th>Performance Targets</th></tr>
<tr><td></td><td>42</td></tr>
<tr><td></td><td>66</td></tr>
</table>
</td>
<td>Progress: Data to be collected in 2005</td>
<td>Additional Source Information: Survey of education decision-makers and policymakers. Data will be collected every 3 years.
Frequency: Other.
Data are valid to the extent that sample includes education decision-makers across high-, low-, and average-achieving districts and states, across urban and rural areas, and from all regions of the country. The sample included district superintendents, chief state school officers, and state higher education executive officers</td>
</tr>
</table>

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Appendix D

Evaluation Findings and Recommendations

Appendix D

Evaluation Findings and Recommendations

Information used to improve the Department's programs and management comes from many sources, including findings from Department of Education evaluations and General Accounting Office (GAO) reports.

In FY 2003, the Department of Education published findings from four evaluation studies of three different Department programs: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), 21st-Century Community Learning Centers (21st CCLC), and Even Start. These programs address increasing the educational opportunities and services available to low-income and minority youth and their families to ensure that these children are not left behind. By evaluating the practices of these programs, the Department can better identify what practices are most effective in improving student achievement.

Also this past year, GAO issued reports covering several of the Department of Education's programs or management. GAO reports are available at http://www.gao.gov/audit.htm; links to specific reports are provided below. This appendix is a summary of report findings and recommendations that were and will be used by management and leadership to improve our services.

Goal 1: Accountability

GAO completed three reports related to Goal 1, Accountability, in FY 2003:

- Flexibility Demonstration Programs: Education Needs to Better Target Program Information (GAO-03-691, June 2003).
- Title I: Characteristics of Tests Will Influence Expenses; Information Sharing May Help States Realize Efficiencies (GAO-03-389, May 2003).
- No Child Left Behind Act: More Information Would Help States Determine Which Teachers Are Highly Qualified (GAO-03-631, July 2003).

Flexibility Demonstration Programs. After reviewing the one applicant for State-Flex and the three applicants for Local-Flex and interviewing nonapplicants, GAO concluded that the Department should provide states and districts with more information and should better target that information to states and districts in the best position to apply for additional flexibility. (The report is available at http://www.gao.gov/new.items/d03691.pdf.)

Title I: Characteristics of Tests Will Influence Expenses. Given that significant expenses may be associated with testing (GAO estimates range from $1.9 to 5.3 billion per state), GAO recommended that the Department facilitate the sharing of information on states' experiences in attempting to reduce expenses. (The report is available at http://www.gao.gov/new.items/d03389.pdf.)

No Child Left Behind Act. To help states determine which teachers are highly qualified and decide what actions they need to take to help teachers become highly qualified, GAO recommended that the Secretary provide more information to states, especially on ways to evaluate the subject area knowledge of current teachers. (The report is available at http://www.gao.gov/new.items/d03631.pdf.)

Goal 2: Student Achievement

The Department continued or completed three evaluations related to Goal 2, Student Achievement. One was an interim report on an after-school program: *When Schools Stay Open Late: The National Evaluation of the 21st-Century Community Learning Centers Program* (available at http://www.ed.gov/pubs/21cent/firstyear/index.html).

Two studies concerned the Even Start program: *State Administration of the Even Start Family Literacy Program: Structure, Process and Practices* (available at http://www.ed.gov/rschstat/eval/disadv/evenstartstate/highlights.html) and *Third National Even Start Evaluation: Program Impacts and Implications for Improvement* (available at http://www.ed.gov/offices/OUS/PES/ed_for_disadvantaged.html#evenstart-4).

Evaluation of After-school Program. 21st CCLC was created in 1994 to provide safe and supervised academic and recreational activities for students at school outside of regular school hours and was one of the fastest growing programs in the Department (from $40 million in FY 1998 to $1 billion in FY 2002) and supports programs in 7,500 public schools. The first-year evaluation and subsequent report *When Schools Stay Open Late: The National Evaluation of the 21st-Century Community Learning Centers Program* was the largest and most rigorous look at after-school programs done to date, with the purpose of examining the characteristics and outcomes of typical programs in elementary and middle schools.

The first-year findings reveal that although 21st CCLC after-school centers changed where and with whom students spent some of their after-school time and was associated with increased parental involvement, they had limited influence on academic performance, no influence on feelings of safety or on the number of "latchkey" children, and some negative influences on behavior. However, the first-year findings also indicated that grantees generally had succeeded in implementing their planned programs and in gaining support from and creating working relationships with school principals and teachers. Most programs provided academic, enrichment, and recreation activities, with homework help being the most common academic activity. Perhaps the most significant implementation problem was the low level of student participation, averaging less than two days a week when the centers were often open four or five days per week. As a result, the Department is considering ways to address low student participation and low academic content within the program, including program structures that would facilitate more frequent attendance, such as focusing on serving students who are having difficulty in reading or math and asking them to participate a minimum number of days each week. The study will release a second report in December 2004, including an additional year of follow-up data and a wider scope of programs. The final report will be released in March 2005.

Evaluation of Even Start. Even Start was created in 1989–90 as a federally administered program and in 1992 was converted to a state-administered formula program with an FY 2003 appropriation of $248 million, supporting approximately 800 sites across the United States. The program helps break the cycle of poverty and illiteracy by improving the educational opportunities of low-income families by integrating early childhood education, adult literacy or adult basic education, and parenting education into a unified family literacy program. Two studies were released in 2003 concerning Even Start: *State Administration of the Even Start Family Literacy Program: Structure, Process and Practices* and *Third National Even Start Evaluation: Program Impacts and Implications for Improvement.* The first study systematically describes all major areas of Even Start administration and the factors that facilitate or impede program improvement activities. The study aims to be both a self-assessment and reference guide for state coordinators and a guide for Even Start administrators at the federal level to better target their assistance to states. This first study revealed the following:

- Even Start staffing in some states has been very stable while some states have experienced frequent changes in state coordinators.
- Staff resources for Even Start at the state level are limited.
- States rarely deny continuation funds to local Even Start projects.
- States differed greatly in every aspect of Even Start performance indicators that were submitted in June 2001, including the measures used, performance standards set, and subgroups to which the measurements and standards are to be applied.

The second study, which included a small experimental design component, found the following:

- Although Even Start children and parents made gains on literacy assessments and other measures, children and parents in the 18 Even Start programs that participated in the assessment made no more school readiness or educational gains than those who did not receive Even Start services. Recipients did not gain more than children and parents in the control group, about one-third of whom received early childhood education or adult education services.
- Even Start serves a very disadvantaged population.
- Compared with Head Start, Even Start parents are much less likely to have a high school diploma, and Even Start families have substantially lower annual household incomes.
- Families do not take full advantage of the services offered by Even Start projects, participating in a small amount of instruction relative to their needs and goals. The extent to

which parents and children participated in literacy services is related to child outcomes.

Based on statements made by state coordinators and the areas of administrative challenges identified in this study, the evaluation recommended providing the following:

- Comprehensive clearinghouse of information and materials related to topics such as Even Start legislative and program guidance; family literacy curricula; research-based instructional approaches for early childhood education, adult education, and parenting education; child and adult assessments; family literacy staff development; and local evaluation approaches.
- More opportunities for state and local Even Start staff, including their evaluators and technical consultants, to attend high-quality educational and technical assistance workshops led by national experts.
- More opportunities for state coordinators to work together in which state coordinators would take the lead in setting the agenda, presenting effective practices or lessons learned, and conducting collaborative problem solving sessions.
- Federal leadership to promote collection of core program and participant data that are comparable across states.

GAO completed four reports related to Goal 2 Student Achievement in FY 2003:

- Higher Education: Activities Underway to Improve Teacher Training, but Reporting on These Activities Could Be Enhanced (GAO-03-6, December 2002).
- Special Education: Clearer Guidance Would Enhance Implementation of Federal Disciplinary Provisions (GAO-03-550, May 2003).
- Child Welfare and Juvenile Justice: Federal Agencies Could Play a Stronger Role in Helping States Reduce the Number of Children Placed Solely to Obtain Mental Health Services (GAO-03-397, April 2003).
- School Lunch Program: Efforts Needed to Improve Nutrition and Encourage Healthy Eating (GAO-03-506, May 2003).

Higher Education: Activities Underway to Improve Teacher Training. To improve teacher quality reporting, GAO recommended that the Secretary further develop and maintain a system for regularly communicating program information with grantees and establish a systematic approach for evaluating all grant activities. In addition, the Department should define key terms from the legislation clearly and allow sufficient time for the verification of the required information. (The report is available at http://www.gao.gov/new.items/d036.pdf.)

Special Education. Special education guidance could also be improved. Although the Department provided guidance and oversight to states and school districts for special education disciplinary placements by providing information on federal requirements; by reviewing state self-assessments, improvement plans, and data; and by conducting on-site data collection visits in selected states, according to some state and local officials, this guidance has not been specific enough. In particular, the regulations do not provide illustrative examples specifying whether the days of in-school suspension should be counted as days of removal under the 10-day rule. Therefore, GAO recommended that the Secretary issue supplemental guidance to state and local education agencies to assist them in implementing the disciplinary provisions of the Individuals with Disabilities Education Act (IDEA). (The report is available at http://www.gao.gov/new.items/d03550.pdf.)

Child Welfare and Juvenile Justice. GAO also noted the need for increased focus on mental health services availability. Child welfare directors in 19 states and juvenile justice officials in 30 counties estimated that in FY 2001 parents placed over 12,700 children into the child welfare or juvenile justice systems so that these children could receive mental health services.

Given this, GAO recommended that the Departments of Health and Human Services (HHS) and Justice (DOJ) consider the feasibility of tracking children placed by their parents in the child welfare and juvenile justice systems to obtain mental health services. HHS, DOJ, and the Department of Education should develop an interagency working group to identify the causes of the misunderstandings at the state and local levels and create an action plan to address those causes. (The report is available at http://www.gao.gov/new.items/d03397.pdf.)

School Lunch Program. Although schools are moving toward meeting school lunch nutrition requirements, more improvements are needed. According to national studies, lunches meet requirements for nutrients such as protein, vitamins, calcium, and iron, but do not meet the required 30 percent limit for calories from fat. GAO recommended that the Secretaries of Agriculture, Health and Human Services, and Education work together to identify specific strategies to help schools promote nutrition education while meeting the demands of state academic standards and to encourage each state to identify a focal point to promote collaborative efforts that would further develop nutrition education activities for schools. (The report is available at http://www.gao.gov/new.items/d03506.pdf.)

Goal 3: Safe Schools, Strong Character

There were no Department evaluations or GAO studies completed in FY 2003 that related to Goal 3, Safe Schools and Strong Character, with the exception of those mentioned under Goal 2 on student achievement.

Goal 4: Research

There were no Department evaluations or GAO studies completed in FY 2003 that related to Goal 4, Research, with the exception of those mentioned under Goal 2 on student achievement.

Goal 5: Postsecondary and Adult Education

The Department completed one evaluation related to Goal 5, Postsecondary and Adult Education: *The Evaluation of Gaining Early Awareness and Readiness for Undergraduate Programs* (GEAR UP) (available at http://www.ed.gov/rschstat/eval/other/gearup.html).

GEAR UP college access program gains momentum but faces implementation challenges. Created in 1998, GEAR UP is a discretionary grant program designed to increase the number of low-income students who are prepared to enter and succeed in postsecondary education. The services include distributing information about colleges; offering academic support; and promoting parental involvement in education, educational excellence, school reform, and student scholarships. The study released this year, *National Evaluation of GEAR UP: A Summary of the First Two Years*, examines the characteristics of students being served by GEAR UP, the activities and services provided to these students and their parents, and the additional professional development opportunities for teachers and curriculum development efforts that are taking place in these schools.

The study showed 237 GEAR UP partnerships were serving nearly 200,000 students in its second year of operation (2000–01). Of those 200,000, 90 percent were in the seventh or eighth grade and were predominately minority: 36 percent were Hispanic; 30 percent, African American; 26 percent, white; 5 percent, Native American and Hawaiian; and 3 percent, Asian. The climate in which GEAR UP had been received by local educators and school districts had taken a positive turn. Initially, GEAR UP was met with resistance by these schools because most viewed it as a hindrance that might dilute their school's focus on improving academics and test scores. However, by the second site visit in spring 2001, school staff perceptions of GEAR UP had significantly improved, with GEAR UP being seen as a positive force for academic improvement.

On average in 1999–2000 and 2000–01, GEAR UP partnerships received federal grants of $713,000, or about $660 per student. Most of the federal funds were used to fund staff, which usually consisted of a full-time director and possibly one other full-time staff member who were centrally located. In addition, these projects generally had full-time site coordinators and some part-time assistants at each participating middle school. Many projects had planned on having fairly elaborate decision-making processes and on involving numerous community partners. But in reality, GEAR UP partners relied heavily on project staff (e.g., project directors and coordinators) to plan and carry out project operations. Most of the partners have been education providers.

Two other areas where grantees' original designs have been difficult to implement are involvement of parents and volunteers. The sites visited as part of the evaluation study indicated they had a great deal of difficulty in getting parents involved in GEAR UP activities. A few sites reported success with institutes that enrolled parents in 9- to 10-week workshops or with extensive outreach efforts, individual meetings, and home visits. Sites also had problems with recruiting the intended number of volunteers to fill their staffing needs, which resulted in making more use of paid professional staff to provide services. An example of this occurred with tutoring, one of the two major services GEAR UP provides. Because the pool of volunteers was insufficient, schools had to rely on paid professionals, usually teachers, to act as tutors to GEAR UP students. Although there were benefits of having paid professional tutors—high dosages of tutoring, experienced tutors, and curriculum alignment—a negative result that arose was the reduction of planned mentoring activities because of volunteer shortages. Additionally, projects experienced difficulty in attracting students during out-of-school hours because of transportation problems and competing interests.

However, college-planning activities such as fairs and college visits took place at almost all projects and were well received by students. In addition, one-third of the sites visited provided individual guidance to all students or to students having academic or behavioral difficulties. Professional development activities also increased significantly between years one and two as teachers became more accepting of GEAR UP. Focus groups indicated that teachers were generally satisfied with the professional development opportunities that GEAR UP provided. Some projects scaled back their summer plans in the second year (summer 2001) in terms of length and expected number of participants because of difficulties in attracting summer participants.

There were five GAO studies in FY 2003 that related to Goal 5, Postsecondary and Adult Education:

- Special Education: Federal Actions Can Assist States in Improving Postsecondary Outcomes for Youth (GAO-03-773, July 2003).
- Transportation-Disadvantaged Populations: Some Coordination Efforts Among Programs Providing Transportation Services, but Obstacles Persist (GAO-03-697, June 2003).
- Workforce Investment Act: One-Stop Centers Implemented Strategies to Strengthen Services and Partnerships, but More Research and Information Sharing Is Needed (GAO-03-725, June 2003).
- College Completion: Additional Efforts Could Help Education With Its Completion Goals (GAO-03-568, May 2003).
- Student Financial Aid: Monitoring Aid Greater Than Federally Defined Need Could Help Address Student Loan Indebtedness (GAO-03-508, April 2003).

Special Education: Actions Can Assist States in Improving Postsecondary Outcomes. Of all IDEA youth who left high school during the 2000–01 school year, 57 percent received a standard diploma, and an additional 11 percent received an alternative credential. High school completion patterns of IDEA youth have remained stable over recent years despite concerns that states' increasing use of exit examinations would result in higher dropout rates. In light of this, GAO recommended that the Department of Education (1) gather and provide states with information on sound strategies to collect and use postsecondary data; (2) develop a plan to provide states with timely feedback and consistent quality of technical assistance; and (3) coordinate with other federal agencies to provide IDEA students and their families with information on federally funded transition services. (The report is available at http://www.gao.gov/new.items/d03773.pdf.)

Transportation-Disadvantaged Populations. Sixty-two federal programs—most of which are administered by the Departments of Health and Human Services, Labor, Education, and Transportation—fund transportation services for the transportation disadvantaged. GAO recommended that the Departments of Labor and Education join the Coordinating Council on Access and Mobility. GAO also recommended that the Departments of Health and Human Services, Labor, Education, and Transportation strengthen the Coordinating Council's strategic plan, include long-term goals and measures for coordination in their agencies' strategic and annual performance plans, and develop and distribute additional guidance and information to encourage coordination. The Departments of Health and Human Services, Labor, Education, and Transportation generally concurred with the findings and recommendations in this report. (The report is available at http://www.gao.gov/new.items/d03697.pdf.)

Workforce Investment Act. Of the 14 one-stop centers in GAO's study that were identified as exemplary by government officials and workforce development experts, all had implemented a range of promising practices to streamline services for jobseekers, engaged the employer community, and built a solid one-stop infrastructure. While Labor currently tracks outcome data—such as job placement, job seeker satisfaction, and employer satisfaction—and funds several studies to evaluate workforce development programs and service delivery models, little is known about the impact of various one-stop service delivery approaches on these and other outcomes. Therefore, GAO recommended that the Secretary of Labor collaborate with the Departments of Education, Health and Human Services, and Housing and Urban Development to develop a research agenda that examines the impact of various approaches to one-stop program integration on outcomes, such as job placement and retention, and jobseeker and employer satisfaction. GAO also recommended that the Secretary conduct a systematic evaluation of the Promising Practices Web site and ensure that it is effective. (The report is available at http://www.gao.gov/new.items/d03725.pdf.)

College Completion. More than half of all students who enrolled in a four-year college completed a bachelor's degree within six years. Students were less likely to complete if neither parent had completed a degree, they were black, they worked 20 or more hours per week, or they transferred to another college. GAO recommended that the Secretary consider multiple measures that would help account for the other goals of higher education and differences among colleges and take steps to identify and disseminate information about promising practices in retention and graduation. (The report is available at http://www.gao.gov/new.items/d03568.pdf.)

Student Financial Aid. GAO found that in school year 1999–2000, of the 3.4 million full-time/full-year federal aid recipients, 22 percent (732,000) received a total of $2.96 billion in financial aid that was greater than their federally defined financial need. Changing the Higher Education Act (HEA) to limit the receipt of aid that is greater than students' federally defined financial need is not likely to achieve significant federal savings, although the use of substitutable loans may increase overall student indebtedness. In terms of cost implications, limiting those instances where federal aid recipients receive substitutable loans—which is the main reason that students received aid greater than their federally defined need—will not likely result in significant savings. Although the government will not have to pay default claims or special allowance payments on loans it guarantees, it would forgo any interest earnings on loans it makes directly. Any savings from limiting these loans would be substantially less than the total amount of the loans made—the $2.72 billion. However, the widespread use of substitutable loans may increase the average debt of borrowers and may affect the Department's ability to help students and their families maintain their loan debt at manageable levels. To ensure that substitutable loans will not lead to unmanageable student loan indebtedness, GAO recommended that the Secretary monitor the impact of substitutable loans on student loan-debt burden and, if debt burden associated with substitutable loans rises substantially, develop alternatives to help students manage student loan-debt burden. (The report is available at http://www.gao.gov/new.items/d03508.pdf.)

Goal 6: Department Management

There were seven GAO studies in FY 2003 that related to Goal 6, Department Management:

- Department of Education: Status of Efforts to Address Major Management Challenges (GAO-03-531T, March 2003).
- Student Loans and Foreign Schools: Assessing Risks Could Help Education Reduce Program Vulnerability (GAO-03-647, July 2003).
- Taxpayer Information: Increased Sharing and Verifying of Information Could Improve Education's Award Decisions (GAO-03-821, July 2003).
- Disadvantaged Students: Fiscal Oversight of Title I Could Be Improved (GAO-03-377, February 2003).
- Federal Student Aid: Timely Performance Plans and Reports Would Help Guide and Assess Achievement of Default Management Goals (GAO-03-348, February 2003).
- Major Management Challenges and Program Risks: Department of Education Management (GAO-03-99, January 2003).
- Federal Student Aid: Progress in Integrating Pell Grant and Direct Loan Systems and Processes, but Critical Work Remains (GAO-03-241, December 2002).

Department of Education: Status of Efforts to Address Major Management Challenges. GAO noted that the Department was taking steps to reduce vulnerabilities in its student aid programs and improve its financial management. The report cited the establishment of a senior management team to address management problems, including financial management, throughout the agency. Although noting that we have made significant progress, GAO said that weaknesses remain that will require the continued commitment and vigilance of Education's management to resolve. (The report is available at http://www.gao.gov/new.items/d03531t.pdf.)

Student Loans and Foreign Schools. Almost 70 percent of all U.S. residents receiving Federal Family Education Loan (FFEL) funds to attend foreign schools are in medical school, and they account for three-quarters of the total loan volume. GAO found that FFEL is vulnerable to fraud, waste, and abuse in several ways. For instance, many foreign schools do not submit required audited financial statements and program compliance audit reports, which would allow the Department to monitor for and detect significant fraud or other illegal acts. GAO recommended that the Department develop online training resources specifically designed for foreign school officials and undertake a risk assessment to determine how best to ensure accountability while considering costs, burden to schools and students, and access to foreign schools. (The report is available at http://www.gao.gov/new.items/d03647.pdf.)

Taxpayer Information. A 1998 amendment to HEA was intended to authorize the matching of student aid applicant information with several elements of federal income tax return information. However, HEA could not be used as intended because Internal Revenue Code Section 6103 was not specifically amended so that the Department and its contractors, which assist the Department in administering the various financial aid programs, could have access to taxpayer information. Based on a study that matched Department data and Internal Revenue Service (IRS) income information, the Department estimates that it made approximately $602 million in grant overpayments during fiscal years 2001 and 2002. GAO did not make any recommendations for the Department. However, GAO previously recommended that Congress consider legislation to authorize IRS to release individual income data to the Department so that the Department could verify income on student-aid applications. (The report is available at http://www.gao.gov/new.items/d03821.pdf.)

Disadvantaged Students: Oversight of Title I. Although Title I program officials had little difficulty in applying the Maintenance of Effort (MOE) provision because it involves a straightforward calculation, state and local program officials and auditors with whom GAO spoke cited a number of factors that made it difficult to enforce the Supplement Not Supplant (SNS) provision under certain circumstances. One of the challenges auditors faced was determining whether a school district would have removed its own funds from a program and allocated them elsewhere even if federal funds had not been available—an action that is allowable. Another challenge was applying the SNS provision in circumstances where it is difficult to track federal dollars, such as in schoolwide programs—where all funds are pooled—or in districts undergoing significant districtwide reforms—where comparisons to previous budgets are problematic. To more effectively focus audit resources, Congress should consider eliminating the SNS requirement for schoolwide programs—where it is unworkable—and increase the MOE requirement. In addition, GAO recommended that the Secretary enhance technical assistance and training efforts to ensure better oversight of Title I's fiscal requirements and more effective use of the single audit process. (The report is available at http://www.gao.gov/new.items/d03377.pdf.)

Federal Student Aid: Timely Performance Plans and Reports. The default management goals of the Office of Federal Student Aid (FSA) were mostly to prevent defaults, increase collections, and verify student eligibility, but the agency lacked a plan to guide its efforts. FSA met or exceeded most goals, but did not prepare timely performance reports. According to GAO's analysis, FSA met or exceeded performance targets for 36 of its 39 default management goals during fiscal years 2000 through 2002. However, FSA did not issue performance reports for fiscal years 2000 and 2001, as required by HEA. Instead, in December 2002, FSA issued one report for both fiscal years that lists accomplishments, but does not clearly indicate the extent to which goals were or were not met. GAO recommended that the Secretary and FSA's chief operating officer produce a five-year performance plan annually as required by the HEA, and prepare and issue timely reports to the Congress on FSA's performance that clearly identify whether performance goals were met. (The report is available at http://www.gao.gov/new.items/d03348.pdf.)

Major Management Challenges and Program Risks: Department of Education Management. GAO noted that the Department has taken steps to address its continuing challenges of reducing vulnerabilities in its student aid programs and improving its financial management, such as establishing a senior management team to address key issues. However, GAO noted that the Department will face new management challenges as it helps states and school districts meet the goals and requirements of the No Child Left Behind Act (NCLB). In particular, GAO noted that the Department will need to monitor states' and school districts' efforts to have students meet challenging academic standards and ensure that all teachers meet standards outlined in NCLB, develop and enforce rigorous standards for research projects we conduct and fund, and help states meet the increased assessment and accountability requirements of NCLB. (The report is available at http://www.gao.gov/pas/2003/d0399.pdf.)

Federal Student Aid: Progress in Integrating Pell Grant and Direct Loan Systems and Processes. GAO noted that although FSA has made progress in implementing the Common Origination and Disbursement (COD) process, the implementation of the COD process is behind schedule, and its ultimate success hinges on FSA's completing critical work, including addressing serious postimplementation operational problems and having thousands of postsecondary schools implement the common record. GAO recommended that the Secretary direct the Chief Operating Officer, FSA, to establish a process to capture and disseminate lessons learned to schools. (The report is available at http://www.gao.gov/new.items/d03241.pdf.)

Appendix E

Management Challenges

Management Challenges of the Department of Education
October 2003

We are providing the management challenges for the Department of Education in accordance with the provisions of the Reports Consolidation Act of 2000 (PL 106-531).

Detailed information about our work is available on our website at http://www.ed.gov/offices/OIG

Inspector General

John P. Higgins, Jr.

CHALLENGE 1: FINANCIAL MANAGEMENT

Sound financial management is essential to the Department's ability to provide accurate financial information, to manage for results, and to ensure operational integrity. The Department's stewardship of billions of federal education dollars depends on a reliable, consistent financial management system to deliver services and benefits to recipients. Improving financial performance is also an item on the President's Management Agenda (PMA). Two significant financial management challenges face the Department: accelerated reporting and re-implementing its financial management system.

- Accelerated reporting

The production of interim and final financial statements for the Office of Management and Budget (OMB) on an accelerated schedule is a prominent challenge for the Department. The Department's Office of the Chief Financial Officer (OCFO) produces the Department-wide financial statements and separate statements for Federal Student Aid (FSA). OMB guidance shortens the time to prepare and audit these year-end financial statements from 120 days for fiscal year (FY) 2003, to 45 days for FY 2004 and beyond. The guidance also shortens the time to prepare unaudited interim statements from 45 days to 21 days. The Department's ability to meet these accelerated time frames will depend on having effective and timely interim and year-end procedures to accumulate and record financial transactions, close the books, and prepare the financial statements.

- Implementation of Oracle 11i

OCFO and FSA recently completed separate implementations of Oracle Federal Financials. The Department plans to re-implement the Oracle system as version 11i to take advantage of enhancements and to stay current with Oracle-supported products. An implementation of this magnitude is a significant and complex undertaking that must be carefully planned and diligently executed. Many decisions are yet to be made that will significantly affect financial reporting capabilities within the Department. In addition, an implementation of this magnitude will eventually draw upon the current resources of OCFO and FSA staff focused on financial management and reporting responsibilities.

Department's Progress

The Department has made improvements in financial management. The Department's and FSA's FY 2002 financial statements received an unqualified audit opinion, a major milestone in the Department's progress toward strengthening its financial management. The Department also successfully met OMB's accelerated due date for its FY 2002 Performance and Accountability Report. The Department has issued the FY 2003 quarterly financial statements required by OMB. In addition, the Department has set a goal of issuing its and FSA's audited FY 2003 financial statements by November 15, 2003. Issuing statements in November implements the FY 2004 reporting requirement one year ahead of schedule.

The Department's target date to go live with the Oracle 11i system is October 2006. The Department has developed a four-tier approach for implementation: conduct impact assessments, develop an upgrade strategy and approach, develop a detailed implementation plan, and implement version 11i.

CHALLENGE 2: FEDERAL STUDENT AID PROGRAMS

The Department's student financial assistance programs are large and complex, affecting more than 37 million parents and students, and involving about 6,000 schools, more than 4,000 lenders, three dozen guaranty agencies, and many third-party servicers and contractors. Last year the Department disbursed and guaranteed approximately $65 billion and managed a $267 billion loan portfolio. Funding for these programs has doubled in the last ten years alone. These programs are inherently risky due to their complex design, reliance on numerous entities, and the nature of the borrower population. They have been on the General Accounting Office's (GAO) high risk list since 1990, and the PMA includes elimination of fraud and error in student aid programs and deficiencies in the Department's financial management as a program initiative. Reducing this risk while maintaining access to these programs is a dominant challenge for the Department.

- Income data match with Internal Revenue Service

Matching income information that applicants provide with information maintained by the Internal Revenue Service (IRS) is the single most effective way to address falsification on applications for student financial assistance. The Higher Education Act requires applicants for aid to provide certain information that will enable the Department to determine their eligibility. Some applicants give false information about their income or dependency status to receive aid they are not eligible to receive. The Department estimated that $336 million in Pell grants was improperly disbursed in FY 2001 because applicants understated their income. Obtaining amendments to the Internal Revenue Code, in a manner that can provide an effective match with the IRS on income information, is critical to addressing this problem.

- Oversight and program review

FSA is responsible for oversight of schools, guaranty agencies, lenders, and third-party servicers retained by these entities. Adequate oversight and program review are key components to reducing abuse in student financial assistance programs. We have found a number of deficiencies that could have been prevented by more stringent oversight and review. For example, during FY 2002 we performed audits at nine guaranty agencies and recommended recovery of approximately $164 million in federal funds. The number of on-site program reviews at schools has dropped, and the average program review liability has also declined sharply. Fewer and limited-scope on-site reviews increase the potential for abuse and mismanagement.

- Contract monitoring

FSA must improve its contractor oversight to ensure that contract terms and conditions are met and that it receives the high-quality goods and services required. We have performed a number of audits and found weaknesses in FSA's contracting processes. Although FSA was provided certain procurement flexibilities under the Performance Based Organization provisions of the Higher Education Act, it still must adhere to the Federal Acquisition Regulation.

Department's Progress

The Department has made a strong commitment to addressing factors that resulted in the student financial assistance programs' placement on GAO's high risk list, and has made progress in reducing risk in these programs. The Department has committed to brief GAO periodically on its progress. The Department also worked with OMB and the Treasury Department to draft proposed amendments to the Internal Revenue Code necessary to implement the IRS match, and continues to work with OMB to support the proposed legislative change.

FSA also has taken steps to improve its program oversight and contract monitoring. It is developing an improved electronic management system to provide case teams electronic access to all information on a school. Implementation of this system would streamline and improve the process for reviews of statutorily required audits and recertifications of schools. At FSA's request, we have performed audits of several of FSA's major contracts, and preaward reviews of proposals submitted for a new loan servicing system contract.

CHALLENGE 3: INFORMATION TECHNOLOGY

The Department's more than 70 systems must be capable of ensuring the availability, confidentiality, and integrity of the data they contain. Critical operations, assets, and sensitive information must be safeguarded from unauthorized access, disruption, and loss. It is essential for the Department to continue its efforts to address information technology (IT) security weaknesses to protect the systems used to administer billions of education dollars under its stewardship.

- IT investment management

The Department needs both an enterprise architecture and an investment management capability to use its systems in a cost-effective and efficient way. The development of a formal process for ensuring that investment decisions are consistent with the enterprise architecture is also necessary for IT systems to function well across the Department.

- IT security

We have determined that the Department has not fully implemented an agency-wide information security program in accordance with the Federal Information Security Management Act. We have also identified significant security weaknesses on the servers and databases that support the Department's mission-critical systems. Although the Department has made significant improvements within the agency-wide information security program, the majority of its general support systems (GSS) and major applications (MA) have not been formally certified to process data in accordance with OMB guidance. We continue to find repeated management, operational, and technical control weaknesses in systems operated at Departmental contractor facilities.

- Critical infrastructure protection program

While participating in a government-wide audit coordinated through the President's Council on Integrity and Efficiency, we found that the Department needs to improve its critical infrastructure protection (CIP) program to secure the infrastructure necessary to provide services for its core missions. As stated in our March 2003 audit report, we found that while the Department has made significant progress since our 2000 review of the program, it still needs to take major steps before mission-essential cyber assets and related infrastructures are fully identified and adequately protected. The Department's cyber assets and related infrastructures are still at risk.

- IT contingency planning

IT resources are vital to an organization's success, and it is critical that the services provided by the Department's systems operate effectively in the event of a disaster or disruption to normal system services. The Department needs viable IT contingency plans to support this requirement. In our assessment of FSA's IT contingency planning, we concluded that FSA needs to improve IT contingency planning, testing, and coordination.

Department's Progress

The Department has made significant progress since our 2002 report on the Government Information Security Reform Act. For example, it has implemented a plan to prioritize security weaknesses on all its systems, and is currently addressing the identified security vulnerabilities. It has also embarked upon a formal certification and accreditation process (C&A) for all GSS and MA, and it plans to complete C&A for its most critical systems by December 2003 and for all other systems by December 2004. The Department recently announced that it has certified and accredited 10 systems, including two of its mission-critical systems, although we have not had an opportunity to verify that assertion. The Department also indicated that it has funded a Project Matrix interdependency study for all mission essential assets. It is also working toward completion of an enterprise-wide architecture and development of mature investment management processes. In addition, the Department is devoting considerable resources to establish and test contingency provisions for its systems.

CHALLENGE 4: PROGRAM PERFORMANCE AND ACCOUNTABILITY

Performance and results are increasingly linked to financial reporting and to budget and funding decisions, and budget and performance integration is an item on the PMA. OMB assessed the performance of more than 200 federal programs in formulating the President's FY 2004 budget. Eighteen education programs were included in that assessment, including Safe and Drug Free Schools State Grants, Even Start, and Pell Grants. We reviewed these assessments and reported our results to OMB. Since program performance and results now may have financial consequences, there is a greater risk of fraudulent reporting of performance information.

- Data reliability

The No Child Left Behind Act mandated major changes in federal education policy and placed additional requirements on states to gather and report data. Successful implementation of the Act's provisions pertaining to teacher quality, student achievement, and other areas depends on reliable data. Many states lack procedures and controls necessary to report reliable data, including school improvement data.

This year, at the request of the Office of Vocational and Adult Education, we audited the accuracy, completeness, and reliability of vocational education and performance data in three states and a sample of sub-recipients in each of those states. We found that one state did not report vocational education and performance data for 64 percent of its community colleges. Another state did not report performance data for 15 percent of its sub-recipients and used a previous year's data to estimate academic attainment reported for secondary schools. For one local agency, 49 percent (852 of 1,743) of students' records were reported more than once in some performance indicators. Accurate data is critical as it could affect how much funding states receive. The vocational education and performance data is used to identify states that are eligible for incentive grant awards under the Workforce Investment Act.

- Monitoring

Monitoring is an essential component for improving accountability of federal education expenditures. Vigorous program and contract monitoring helps ensure that federal education dollars are administered and used in the most effective and efficient manner, and is critical to program success. We have identified areas that can be improved in the Department's monitoring of its programs and contracts. For example, we found that the Office of Elementary and Secondary Education (OESE) needed to implement a systematic process to identify and monitor high-risk grantees. We also recently issued a management information report suggesting that the Department revise its contract monitoring directive to include a definition of a high-risk contract and specific guidelines for identifying and monitoring high-risk contracts. The Department agreed with our suggestion.

- Program accountability and compliance

Our work disclosed special accountability and compliance issues for federal education programs in the Virgin Islands, Puerto Rico, and the Pacific Outlying Areas. There are serious instances of misuse of education funds by grantees that might have been detected and prevented through consistent oversight, such as on-site monitoring and the timely submission and effective resolution of Single Audits and performance reports. Our investigations and audits found internal control weaknesses in Puerto Rico. An investigation between 1995 and 2000 of the former Puerto Rico Secretary and Associate Secretary of Education disclosed a conspiracy to fraudulently obtain approximately $4.3 million for education contracts valued at approximately $138 million.

Department's Progress

The Department has focused attention on the need to improve data quality and reliability. It has addressed this issue in its strategic plan, and the Secretary has made accountability a key priority. The Assistant Secretary for OESE convened a working group that developed and issued improved strategies and procedures for identifying high-risk grantees, and outlined the steps program officers should take when dealing with a grantee that is at risk of becoming, or currently is, a high-risk grantee. The Department also established an Insular Affairs Committee comprised of senior program office representatives to address accountability and compliance issues in the Virgin Islands, Puerto Rico, and the Pacific Outlying Areas. This committee is focusing on resolving findings in the Single Audits submitted by these areas. In addition, the Department has imposed special conditions on grants to some of these entities.

CHALLENGE 5: HUMAN CAPITAL

GAO placed strategic management of human capital on its high risk list in 2001. The fundamental human capital problem GAO identified is the long-standing lack of a consistent strategic approach to managing and maintaining the workforce necessary for a more effective and efficient government. On the PMA, the need for the strategic management of human capital is the first item listed. The PMA, referencing the GAO report, cites the need for workforce restructuring "to reduce the distance between citizens and decision-makers;" implementation of knowledge management systems to generate, capture, and disseminate knowledge and information; human resources planning to address upcoming retirements; and greater attention to recruiting and retaining a highly qualified workforce. In addition, GAO noted that continuing the implementation of strategic human capital measures, including succession planning and staff development, were important to reducing the high risk designation of the SFA programs. The Department needs to address the challenges identified by GAO and the PMA, including planning for the impact of changes in existing personnel; about 34 percent of its career staff were eligible to retire in 2001.

Department's Progress

The Department included a specific human capital objective in its strategic plan, and in 2002 developed its One-ED Report, which it calls its human capital plan. This report discusses the PMA's call for strategic management of human capital. Human capital action steps also were included in the Department's Blueprint for Management Excellence. Specific functions in five offices in the Department have completed initial work under One-ED. One-ED includes a discussion of competitive sourcing, a five-tier performance appraisal system, and learning tracks. It does not, however, offer a Department-wide or Department-specific approach to some significant human capital issues such as human resource planning, workforce restructuring, and knowledge management. We have started a review of the first phase of the Department's implementation of One-ED and a review of human capital action steps under the Blueprint for Management Excellence that have been identified as completed. Based on our work, we will make recommendations to aid the Department in strengthening its human capital management.

Glossary of Abbreviations and Acronyms

Glossary of Abbreviations and Acronyms

21st CCLC	21st Century Community Learning Centers
AARTS	Audit Accountability and Resolution Tracking System
ACSI	American Customer Satisfaction Index
AEFLA	Adult Education and Family Literacy Act
AID	Aid for Institutional Development
AP	Advanced Placement
ATA	Assistive Technology Act
ATMD	Assistive Technology Mobility Device
BCP	Business Continuity Plans
C&A	Certification and Accreditation
CCD	Common Core of Data
CDC	Centers for Disease Control
CHAFL	College Housing and Academic Facilities Loans
COD	Common Origination and Disbursement
COOP	Continuity of Operations Plan
CPS	Central Processing System
CRA	Civil Rights Act
CRCMS	Civil Rights Case Management System
CSB	Common Services for Borrowers
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act
DCMS	Debt Collection Management Systems
DEOA	Department of Education Organization Act
DLOS	Direct Loan Origination System
DM	Department Management
DOEAA	Department of Education Appropriations Act
DOJ	Department of Justice
DRP	Disaster Recovery Plan
DVR	Division of Vocational Rehabilitation

ECEPD	Early Childhood Educator Professional Development
EDA	Education of the Deaf Act
EDCAPS	Education Department's Central Automated Processing System
EDEN	Education Data Exchange Network
EDNet	Education Department's Basic Communications Network
EDPAS	Education Department Performance Appraisal System
ELL	English Language Learner
ERIC	Educational Resources Information Center
ESEA	Elementary and Secondary Education Act
ESRA	Education Sciences Reform Act
FAFSA	Free Application for Federal Student Aid
FASAB	Federal Accounting Standards Advisory Board
FBCO	Faith-Based and Community Organization
FECA	Federal Employees Compensation Act
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFEL	Federal Family Education Loan
FFMIA	Federal Financial Management Improvement Act
FICA	Federal Insurance Contributions Act (Social Security)
FIE	Fund for the Improvement of Education
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMSS	Financial Management System Software
FSA	Office of Federal Student Aid
FTE	Full-Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GAPS	Grant Administration and Payment System
GED	General Educational Developmental
GEAR UP	Gaining Early Awareness and Readiness for Undergraduate Programs

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GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GRS	Graduation Rate Survey
HBCU	Historically Black College and University
HEA	Higher Education Act
HEFL	Higher Education Facilities Loans
HEROES	Higher Education Relief Opportunities for Students Act
HHS	Department of Health and Human Services
HKNCA	Helen Keller National Center Act
HSI	Hispanic-Serving Institution
IASA	Improving America's Schools Act
IDEA	Individuals with Disabilities Education Act
IDS	Intrusion Detection Services
IES	Institute of Education Sciences
IPEDS	Integrated Postsecondary Education Data System
IRS	Internal Revenue Service
IT	Information Technology
LAP	Lender Application Process
LaRS	Lenders Reporting System
LEA	Local Educational Agency
MECEA	Mutual Educational and Cultural Exchange Act of 1961
MIS	Management Information Systems
MOE	Maintenance of Effort
MOU	Memorandum of Understanding
MS	Minimally Successful
MSI	Mathematics and Science Initiative
MSP	Mathematics and Science Partnership
MVHAA	McKinney-Vento Homeless Assistance Act
NAEP	National Assessment of Educational Progress
NAGB	National Assessment Governing Board
NBPTS	National Board for Professional Teaching Standards

NCER	National Center for Education Research
NCES	National Center for Education Statistics
NCLB	No Child Left Behind Act
NCVS	National Crime Victimization Survey
NHES	National Household Education Survey
NIDRR	National Institute on Disability and Rehabilitation Research
NIST	National Institute of Standards and Technology
NLA	National Literacy Act
NPEC	National Postsecondary Education Cooperative
NPSAS	National Postsecondary Student Aid Study
NRS	National Reporting System
NSF	National Science Foundation
NSLDS	National Student Loan Data System
OCIO	Office of the Chief Information Officer
OCFO	Office of the Chief Financial Officer
OCR	Office for Civil Rights
OESE	Office of Elementary and Secondary Education
OELA	Office of English Language Acquisition
OERI	Office of Educational Research and Improvement
OIG	Office of Inspector General
OM	Office of Management
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPM	Office of Personnel Management
OSDFS	Office of Safe and Drug-Free Schools
OSEP	Office of Special Education Programs
OSERS	Office of Special Education and Rehabilitative Services
OVAE	Office of Vocational and Adult Education
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PBDMI	Performance-Based Data Management Initiative

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PIRC	Parental Information and Resource Centers
PIRWG-LT	Planning and Investment Review Group Leadership Team
PL	Public Law
PLUS	Parental Loans for Undergraduate Students
PMA	*President's Management Agenda*
POA&M	Plan of Actions and Milestones
RA	Rehabilitation Act
REAP	Rural Education Achievement Program
RFMS	Recipient Financial Management System
RFP	Request for Proposal
RSA	Rehabilitation Services Administration
SAMHSA	Substance Abuse and Mental Health Services Administration
SBR	Statement of Budgetary Resources
SEA	State Educational Agencies
SEOG	Supplemental Educational Opportunity Grant
SERV	School Emergency Response to Violence
SFA	Student Financial Assistance
SFFAS	Statement of Federal Financial Accounting Standards
SNS	Supplement Not Supplant
SS/HS	Safe Schools/Healthy Students Initiative
SY	School Year
T^{2}RERC	Rehabilitation Engineering Research Center on Technology Transfer
TAC	Teacher Assistance Corps
TASSIE	Title I Accountability Systems and School Improvement Efforts
TCU	Tribal College and University
U	Unacceptable
USC	United States Code
USCO	Unsafe School Choice Option
VR	Vocational Rehabilitation
VTEA	Vocational and Technical Education Act
WWC	What Works Clearinghouse
YRBSS	Youth Risk Behavior Surveillance System

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The Department welcomes all comments and suggestions on both the content and presentation of this report. Please forward them to:

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